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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 2019

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 2019, together with the comparative figures for the year ended 31 March 2018, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2019

	Notes	2019 *HK$'000*	2018 *HK$'000*
Revenue	*4*	**94,820**	81,670
Cost of sales		**(62,651)**	(48,158)
Gross profit		**32,169**	33,512
Other income and gains	*4*	**8,282**	3,601
Interest income from loan receivable	*13*	**–**	683
Gain on disposal of items of property, plant and equipment, net		**–**	58
Provision for expected credit loss allowance/ impairment loss on trade receivables	*5*	**(4,910)**	(2,819)
Reversal of expected credit loss allowance/ impairment loss on trade receivables	*5*	**2,115**	2,730
Reversal of impairment loss on other receivables	*5*	**–**	68
Selling and distribution expenses		**(31,832)**	(30,429)
Administrative expenses		**(32,441)**	(30,946)
Other expenses		**–**	(20)
Finance costs	*6*	**(9,589)**	(10,325)

	Notes	**2019**	2018
		HK$'000	*HK$'000*
Loss before tax	*5*	**(36,206)**	(33,887)
Income tax expense	*7*	**(714)**	(15)
Loss for the year		**(36,920)**	(33,902)
Loss attributable to owners of the Company		**(36,920)**	(33,902)
Loss per share attributable to owners of the Company	*9*		
Basic and diluted		**HK(2.54) cents**	HK(2.34) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2019

	2019	2018
	HK$'000	*HK$'000*
Loss for the year	**(36,920)**	(33,902)
Other comprehensive (loss)/income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(8,366)**	13,836
Other comprehensive (loss)/income for the year, net of income tax	**(8,366)**	13,836
Total comprehensive loss for the year	**(45,286)**	(20,066)
Total comprehensive loss attributable to owners of the Company	**(45,286)**	(20,066)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	10	**4,860**	2,401
Available-for-sale financial assets	11	**–**	7,500
Total non-current assets		**4,860**	9,901
Current assets			
Inventories		**2,353**	2,119
Trade receivables	12	**52,199**	27,010
Prepayments, deposits and other receivables		**10,747**	8,967
Time deposits with original maturities of more than three months	14	**22,225**	96,313
Cash and bank balances	14	**88,407**	153,336
Total current assets		**175,931**	287,745
Current liabilities			
Trade payables	15	**1,120**	1,661
Other payables, accruals, receipts in advance and deposits from customers		**34,526**	48,435
Contract liabilities		**4,136**	–
Finance leases payables		**118**	267
Convertible bonds	16	**–**	58,767
Income tax payables		**712**	2
Due to related companies		**188**	168
Due to directors of the Company		**1,776**	3,750
Total current liabilities		**42,576**	113,050
Net current assets		**133,355**	174,695
Total assets less current liabilities		**138,215**	184,596

	Notes	2019 HK$'000	2018 HK$'000
Non-current liabilities			
Finance leases payables		**82**	200
Deferred income		**–**	186
Contract liabilities		**49**	–
Total non-current liabilities		**131**	386
Net assets		**138,084**	184,210
Equity			
Equity attributable to owners of the Company			
Share capital	*17*	**72,576**	72,576
Reserves		**65,508**	111,634
Total equity		**138,084**	184,210

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. CORPORATE AND GROUP INFORMATION

The Company is a public limited liability company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

These consolidated financial statements have been prepared on the historical cost convention except for financial assets at fair value through profit or loss ("FVTPL") that are measured at fair values on initial recognition and at subsequent period end dates. These consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the Company's functional currency, and all values are rounded to the nearest thousand except when otherwise indicated. Certain comparative figures have been reclassified in order to conform with current year's presentation.

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 2019 are consistent with those adopted in the consolidated financial statements for the year ended 31 March 2018, 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

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue Contracts with Customers
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfer of Investment Property
HK(IFRIC) – Interpretation 22	Foreign Currency Transactions and Advance Consideration

The adoption of the above new and revised standards has had no significant effect on the consolidated financial statements of the Group except for the adoption of HKFRS 9 and HKFRS 15 as discussed below.

(i) HKFRS 9 Financial Instruments

(a) Key changes in accounting policies resulting from application of HKFRS 9

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

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVTOCI") and at FVTPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale ("AFS") 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 of the Company 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 2(i)(b). The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities.

(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 bank balances, trade receivables and deposits and other receivables).

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.

The Group applies the simplified approach to provide for ECLs prescribed by HKFRS 9, which permits the use of the lifetime ECLs for all trade receivables. The ECLs 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 for all financial instruments is recognised in profit or loss.

As at 1 April 2018, the directors of the Company 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 below.

(b) 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	**AFS 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 AFS financial assets	*(i)*	(7,500)	7,500	–	–	–
Re-measurement						
Impairment under ECL model	*(ii)*	–	–	(840)	797	43
Opening balances at 1 April 2018 – HKFRS 9		–	7,500	26,170	174,777	(13,592)

Notes: (i) AFS financial assets

At the date of initial application of HKFRS 9, the Group's equity investments with carrying amount of HK$7,500,000 were reclassified from AFS financial assets to financial assets at FVTPL. No fair value adjustment was recognised as at 1 April 2018 as the equity investments were previously carried at fair value. Since the Group did not have accumulated asset revaluation reserve relating to those equity investments as at 1 April 2018, no transfer between asset revaluation reserve and accumulated losses is required upon initial application of HKFRS 9.

(ii) 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 ECL 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 ECL allowance measured in accordance with HKFRS 9 as at 1 April 2018:

	Impairment allowance under HKAS 39	**Effect on adoption of HKFRS 9**	**ECL allowance under HKFRS 9**
	HK$'000	*HK$'000*	*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 consolidated statement of financial position as at 31 March 2018, but are recognised as adjustment to the opening accumulated losses 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.

(ii) HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current 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 accumulated losses (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.

(a) 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.

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.

(b) Summary of effects arising from initial application of HKFRS 15

The adoption of HKFRS15 does not have material impact on the Group's accumulated losses as at 1 April 2018. The following adjustments were made to the amounts recognised in the 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	**Reclassification**	**Carrying amounts under HKFRS 15 as at 1 April 2018**
	HK$'000	*HK$'000* *(Note)*	*HK$'000*
Current liabilities			
Other payables, accruals, receipts in advance and deposits from customers	48,435	(18,706)	29,729
Contract liabilities	–	18,706	18,706
Non-current liabilities			
Deferred income	186	(186)	–
Contract liabilities	–	186	186

Note: At the date of initial application of HKFRS 15, other payables, accruals, receipts in advance and deposits from customers as at 1 April 2018 included receipts in advance from customers for sales of goods and deferred franchise income of approximately HK$17,603,000 and HK$1,103,000 respectively. The aggregate balance of approximately HK$18,706,000 was reclassified to contract liabilities upon application of HKFRS 15.

Non-current deferred income as at 1 April 2018 represented deferred franchise income for the period over 1 year of approximately HK$186,000. This balance was reclassified to non-contract liabilities upon application of HKFRS 15.

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

3. SEGMENT INFORMATION

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

(a) the "Distribution of pharmaceutical products" segment engages in the trading and distribution of pharmaceutical products; and

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

The directors of the Company 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, which represents the loss from each segment without allocation of bank interest income, interest income from loan receivable, finance cost, gain on disposal of financial assets at FVTPL, gain on disposal of items of property, plant and equipment, exchange gain, as well as head office and corporate expenses.

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

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

(a) **Operating segments**

	Distribution and trading of pharmaceutical products *HK$'000*	Distribution and trading of tea and other food products *HK$'000*	Total *HK$'000*
Year ended 31 March 2019			
Segment revenue:			
Sales to external customers	**3,873**	**90,947**	**94,820**
Other income	**–**	**1,214**	**1,214**
	3,873	**92,161**	**96,034**
Segment results	**(7,904)**	**(11,630)**	**(19,534)**
Reconciliation:			
Bank interest income			**1,677**
Gain on disposal of financial assets at FVTPL			**5,391**
Corporate and other unallocated expenses			**(14,151)**
Finance costs			**(9,589)**
Loss before tax			**(36,206)**
As at 31 March 2019			
Segment assets	**2,350**	**67,518**	**69,868**
Reconciliation:			
Time deposits with original maturities of more than three months			**22,225**
Cash and bank balances			**88,407**
Corporate and other unallocated assets			**291**
Total assets			**180,791**
Segment liabilities	**1,853**	**28,540**	**30,393**
Reconciliation:			
Finance leases payables			**200**
Income tax payables			**712**
Corporate and other unallocated liabilities			**11,402**
Total liabilities			**42,707**
Year ended 31 March 2019			
Other segment information:			
Provision for obsolete inventories recognised in the consolidated statement of profit or loss	**4**	**–**	**4**
Provision for expected credit loss allowance on trade receivables recognised in the consolidated statement of profit or loss	**–**	**4,910**	**4,910**
Reversal of expected credit loss allowance on trade receivables recognised in the consolidated statement of profit or loss	**–**	**(2,115)**	**(2,115)**
Depreciation	**489**	**1,488**	**1,977**
Capital expenditure*	**38**	**4,495**	**4,533**

	Distribution and trading of pharmaceutical products HK$'000	Distribution and trading of tea and other food products HK$'000	Total HK$'000
Year ended 31 March 2018			
Segment revenue:			
Sales to external customers	4,642	77,028	81,670
Other income	102	2,200	2,302
	4,744	79,228	83,972
Segment results	(6,838)	(4,263)	(11,101)
Reconciliation:			
Bank interest income			1,299
Interest income from loan receivable			683
Gain on disposal of items of property, plant and equipment, net			58
Corporate and other unallocated expenses			(14,501)
Finance costs			(10,325)
Loss before tax			(33,887)
As at 31 March 2108			
Segment assets	3,060	37,211	40,271
Reconciliation:			
AFS financial assets			7,500
Time deposits with original maturities of more than three months			96,313
Cash and bank balances			153,336
Corporate and other unallocated assets			226
Total assets			297,646
Segment liabilities	1,519	38,797	40,316
Reconciliation:			
Convertible bonds			58,767
Finance leases payables			467
Income tax payables			2
Corporate and other unallocated liabilities			13,884
Total liabilities			113,436
Year ended 31 March 2018			
Other segment information:			
Provision for obsolete inventories recognised in the consolidated statement of profit or loss	10	–	10
Impairment losses recognised on trade receivables in the consolidated statement of profit or loss	–	2,819	2,819
Impairment losses reversed on trade receivables in the consolidated statement of profit or loss	–	(2,730)	(2,730)
Impairment losses reversed on other receivables in the consolidated statement of profit or loss	–	(68)	(68)
Depreciation	544	501	1,045
Capital expenditure*	239	483	722

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

(b) Geographical information

(i) Revenue from external customers:

	2019	2018
	HK$'000	*HK$'000*
The People's Republic of China (the "PRC"), excluding Hong Kong	**86,682**	72,154
Hong Kong	**3,874**	4,642
Elsewhere in Asia	**4,072**	1,798
United States of America	**192**	3,076
	94,820	81,670

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

(ii) Non-current assets:

	2019	2018
	HK$'000	*HK$'000*
The PRC, excluding Hong Kong	**4,622**	1,705
Hong Kong	**238**	696
	4,860	2,401

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

(c) Information about major customers

Revenue of approximately HK$31,268,000 for the year ended 31 March 2019 was derived from sales to one major customer. This customer contributed 10% or more sales to the Group's revenue.

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

4. REVENUE AND OTHER INCOME AND GAINS

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

An analysis of revenue and other income and gains is as follows:

	Notes	**2019** **HK$'000**	2018 HK$'000
Revenue from contract with customers within the scope of HKFRS 15			
Sale of goods, recognised at point in time	*3*	**94,820**	81,670
Other income within the scope of HKFRS 15			
Franchise income, recognised over time		**927**	1,583
Other income and gains from other sources			
Bank interest income		**1,677**	1,299
Subsidy income^		**–**	406
Rental income		**–**	144
Gain on disposal of financial assets at FVTPL	*11*	**5,391**	–
Others		**287**	169
		7,355	2,018
Total other income and gains		**8,282**	3,601

^ *Various one-off government subsidies were 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 were no unfulfilled conditions or contingencies related to these subsidies.*

5. LOSS BEFORE TAX

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

	Notes	2019 HK$'000	2018 HK$'000
Cost of inventories recognised as an expense		**61,044**	46,496
Depreciation		**1,977**	1,045
Minimum lease payments under operating leases of offices and shops premises		**8,482**	8,305
Auditors' remuneration			
– Audit services		**880**	930
– Non-audit services		**200**	338
Employee benefits expense (excluding directors' remuneration):			
Salaries, allowances and benefits in kind		**23,368**	22,420
Pension scheme contributions			
– Provision for current year		**3,322**	3,090
– Over-provision in prior year		**(3,123)**	(900)
		23,567	24,610
Provision for slow-moving and obsolete inventories*		**4**	10
Provision for expected credit loss allowance/ impairment loss on trade receivables	*12*	**4,910**	2,819
Reversal of expected credit loss allowance/ impairment loss on trade receivables	*12*	**(2,115)**	(2,730)
Reversal of impairment loss on other receivables		**–**	(68)

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

6. FINANCE COSTS

	Note	2019 HK$'000	2018 HK$'000
Interest on finance leases		**12**	26
Effective interest expense on convertible bonds	*16*	**9,577**	10,299
		9,589	10,325

7. 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 for the year ended 31 March 2019. No provision for Hong Kong profit tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year ended 31 March 2018. 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.

	2019 HK$'000	2018 HK$'000
Current – Hong Kong		
Change for the year	**710**	–
Under-provision in prior year	**4**	–
	714	–
Current – PRC Enterprise Income Tax ("EIT")		
Charge for the year	**–**	15
Total income tax expense for the year	**714**	15

8. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for the year ended 31 March 2019 (2018: Nil).

9. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to owners of the Company of approximately HK$36,920,000 (2018: HK$33,902,000), and the weighted average number of ordinary shares of approximately 1,451,520,000 (2018: 1,451,520,000) in issue during the year.

For year ended 31 March 2019, the computation of diluted loss per share does not assume the Company's exercise of outstanding share options since their assumed exercises would result in a decrease in loss per share.

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

10. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately HK$4,533,000 (2018: HK$722,000) and disposed of property, plant and equipment with an aggregate net book value of HK$Nil (2018: HK$8,000).

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

AFS financial assets as at 31 March 2018 represented investments in equity securities listed on The Stock Exchange of Hong Kong Limited, which were measured at fair value and the fair value measurement was categorised as Level 1 under fair value measurement category under HKFRS 13. Upon the adoption of HKFRS 9 on 1 April 2018, all AFS financial assets were reclassified as financial assets at FVTPL. All financial assets at FVTPL were sold during the year and resulted in gain on disposal of financial assets at FVTPL of approximately HK$5,391,000 (2018: Nil) (note 4).

12. TRADE RECEIVABLES

	At 31 March 2019	At 1 April 2018	At 31 March 2018
	HK$'000	*HK$'000*	*HK$'000*
		(HKFRS 9)	(HKAS 39)
Trade receivables	**77,420**	50,094	50,094
Less: Expected credit loss allowances/ impairment losses	**(25,221)**	(23,924)	(23,084)
	52,199	26,170	27,010

Upon the adoption of HKFRS 9, an opening adjustment as at 1 April 2018 was made to recognised additional ECL on trade receivables (see note (2)(i)(b)). Details of ECL assessment of trade receivables are set out in note 19.

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 360 days (2018: 30 to 90 days). Longer credit periods are provided to certain customers because the Group encouraged these customers for their start-up business. Due to the continuous slowdown in traditional retail sales of the consumer goods in the PRC resulted from gradually deceleration of the economic development in the PRC in recent years, the discouragement of excessive hospitality such as gifting by the PRC government and the consolidation and enhanced regulation of the PRC direct selling industry, operating performances of certain customers were adversely affected and these customers are in financial difficulties so that proportion of long aged trade receivables increased during the year. Accordingly, the Group seeks to maintain control over its past due receivables. Regarding those major customers, the Group uses an internal credit rating system to assess those customers' credit qualities, defines credit limits by customer and performs follow up procedures on settlements of outstanding receivables. Overdue balances are reviewed regularly by the directors of the Company and ECL (2018: incurred loss) of trade receivables are provided to trade receivables. Trade receivables are non-interest-bearing.

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

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**8,962**	4,859
2 to 3 months	**15,755**	6,429
4 to 12 months	**20,984**	14,580
Over 12 months	**6,498**	1,142
	52,199	27,010

An aged analysis of the trade receivables, net of expected credit loss allowance/impairment losses 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:

	2019	2018
	HK$'000	*HK$'000*
Current (neither past due nor impaired)	**23,788**	5,148
Within 1 to 3 months overdue	**5,680**	6,140
Within 4 to 12 months overdue	**19,526**	15,722
Over 12 months overdue	**3,205**	–
	52,199	27,010

The movements in the provision for expected credit loss allowance/impairment losses of trade receivables are as follows:

	Notes	2019 HK$'000	2018 HK$'000
31 March 2018 under HKAS 39		**23,084**	20,783
Impact on initial application of HKFRS 9			
– expected credit loss allowances recognised in opening accumulated losses		**840**	–
		23,924	20,783
1 April 2018 under HKFRS 9			
Provision for expected credit loss allowance/impairment losses recognised	*5*	**4,910**	2,819
Reversal of expected credit loss allowance/ impairment losses	*5*	**(2,115)**	(2,730)
Amounts written off as uncollectible		**–**	(11)
Exchange realignment		**(1,498)**	2,223
31 March 2019		**25,221**	23,084

Included in the above provision for impairment of the trade receivables as at 31 March 2018 were individually impaired trade receivables with an aggregate balance of HK$23,084,000. These individually impaired receivables were related to customers that are in financial difficulties and the directors of the Company assessed that the chance of recoverability is remote.

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

Included in the Group's trade receivables as at 31 March 2019 were trade receivables due from 理想科技集團有限公司 (Ideality Technology Group Company Limited)@ (the "Ideality Group"), a related party of the Group which was beneficially owned as to 85.5% (2018: 85.5%) and 14.5% (2018: 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 was also a substantial shareholder of the Company, of approximately HK$1,597,000 (2018: HK$5,329,000), which were repayable on similar credit terms to those offered to the major customers of the Group. Included in the balances due from Ideality Group, there were approximately HK$1,473,000 (2018: HK$2,350,000) which were past due at the end of the reporting period. Based on past experience, the directors of the Company determine that no provision (2018: Nil) for impairment is necessary in respect of these balances as there are no significant change in credit quality of the balances and all of these balances as at 31 March 2019 were fully settled subsequent to the end of the reporting period.

Details of ECL assessment of trade receivables are set out in note 19.

13. LOAN RECEIVABLE

The loan receivable was granted to a party ("Borrower") which is an independent third party of the Group or any of the directors of the Company. The loan receivable was denominated in RMB, which was unsecured, interest-bearing at fixed rate of 9% per annum and would be repayable within 6 months after the available date of releasing advance as prescribed in the loan agreement, which was approved by the directors of the subsidiary of the Group. The loan was paid to FLRT, CLRT (as defined in note 15) and 雲南龍潤藥業有限公司 (Yunnan Long Run Pharmaceuticals Company Limited)@ ("YLRP") on the instruction of the Borrower. The loan interest income of approximately HK$683,000 was recognised as the "Interest income from loan receivable" in the consolidated statement of profit or loss for the year ended 31 March 2018. At 31 March 2017, the loan and interest receivable had been past due and repayable on demand. During the year ended 31 March 2018, the loan receivable and interest thereon were fully repaid by the Borrower and LRTG (as defined in note 15) on the instruction of the Borrower. Details of loan receivable are set out in the announcements of the Company dated 28 February 2018 and 11 February 2019.

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.

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

14. CASH AND BANK BALANCES/TIME DEPOSITS WITH ORIGINAL MATURITIES OF MORE THAT THREE MONTHS

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to approximately HK$76,596,000 (2018: HK$142,624,000) while the remaining cash and bank balances are denominated in HK$. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

All the Group's time deposits with original maturities of more than three months of approximately HK$22,225,000 (2018: HK$96,313,000) are denominated in HK$ at 31 March 2019 (2018: HK$) and not regarded as cash and cash equivalents as these time deposits are fixed deposits have maturity date over three months from the date of acquisition.

Cash at banks earns interest at floating rates based on daily bank deposit rates which range from 0.13% to 1.90% (2018: 0.01% to 1.38%) per annum. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and bank balances and the time deposits approximate to their fair values.

15. 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:

	2019	2018
	HK$'000	*HK$'000*
Current and not past due	**31**	1,176
Within 1 to 3 months overdue	**585**	2
Within 4 to 12 months overdue	**21**	–
Over 12 months overdue	**483**	483
	1,120	1,661

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

	2019	2018
	HK$'000	*HK$'000*
Yunnan Longrun Tea Group Company Limited[@] ("LRTG") 雲南龍潤茶業集團有限公司	**174**	646
Fengqing Longrun Tea Company Limited[@] ("FLRT") 鳳慶龍潤茶業有限公司	**130**	397
Changning Longrun Tea Company Limited[@] ("CLRT") 昌寧縣龍潤茶業有限公司	**12**	128
Yunnan Longfar Pharmaceutical Company Limited[@] ("YNLF") 雲南龍發製藥股份有限公司	**302**	33
	618	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 name of this entity is in Chinese. The English translation of the name is for identification purpose only.*

16. 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 (the "Maturity Date") and the conversion price is HK$0.27 per share subject to anti-dilutive adjustments. Neither the Company nor the holders of the Convertible Bond may demand early redemption. And the Convertible Bond bears interest 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. No Convertible Bonds had ever been converted or cancelled prior to the Maturity Date. During the year ended 31 March 2019 and upon the Maturity Date, the Company had paid to the holders of the Convertible Bonds a sum of HK$68,344,000 an amount equal to the aggregate of 100% of the principal amount of the Convertible Bonds outstanding and interest accrued and outstanding up to the Maturity Date, pursuant to the terms and conditions of the Convertible Bonds.

Details of the Convertible Bonds are set out in the announcements of the Company dated 11 December 2016, 19 January 2017, 27 January 2017, 6 February 2017 and 15 February 2019.

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

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

All convertible bonds were redeemed by the principal amount at the maturity date on 25 January 2019.

The Convertible Bonds recognised were calculated as follows:

	2019	2018
	HK$'000	*HK$'000*
Equity component		
At the beginning of the year	**12,549**	12,549
Redemption of Convertible Bonds	**(12,549)**	–
At the end of the year	**–**	12,549

		2019	2018
	Note	***HK$'000***	*HK$'000*
Liability component			
At the beginning of the year		**58,767**	52,032
Effective interest expense	*6*	**9,577**	10,299
Interest paid		**(3,544)**	(3,564)
Redemption of Convertible Bonds		**(64,800)**	–
At the end of the year		**–**	58,767

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.

17. SHARE CAPITAL

	2019	2018
	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 2017, 31 March 2018 and 31 March 2019	**1,451,520,000**	**72,576**

Share options

Details of the Company's share option scheme and the share options are included in note 18 to this announcement of final results.

18. 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 outstanding under the Scheme during the year:

	Weighted average exercise price HK$ per share	**Number of options** *HK$'000*
At 1 April 2017, 31 March 2018 and 31 March 2019	**0.3**	**51,400,000**

No share options were granted, exercised or lapsed under the Scheme during the year ended 31 March 2019 (2018: Nil).

There are no vesting period and condition regarding the share option granted.

19. CREDIT RISK AND IMPAIRMENT ASSESSMENT

The carrying amount of trade receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's trade receivables. The Group has a significant concentration of credit risk in relation to trade receivables as the trade receivables due from the five largest customers accounted for 37.5% (2018: 29.8%) of the Group's trade receivables at the end of the reporting period.

As disclosed in note 12, due to adverse operating environment of tea products selling business in the PRC, operating performances of certain customers of the Group were adversely affected and these customers were in financial difficulties so that proportion of long aged trade receivables increased during the year. Accordingly, the Group performs ongoing credit evaluations of its customers' financial conditions and requires no collateral from its customers. The Group performs impairment assessment under ECL model upon application of HKFRS 9 (2018: incurred loss model) on trade balances based on provision matrix using simplified approach and estimated loss rates which are time value of money and are adjusted for forward-looking information that is available without undue cost or effort.

With respect to credit risk arising from the other financial assets of the Group, comprising cash and bank balances, time deposits with original maturities of more than three months and deposits and other receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure being equal to the carrying amounts of these instruments. There is no significant concentration of credit risk within the Group in relation to the other financial assets. Bank balances of the Group are held with the financial institutions of good standing.

As part of the Group's credit risk management, the Group groups categories its customers based on similar risk characteristics that are representative of the customers' abilities to pay the outstanding amounts due. The following table provides information about the Group's exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 March 2019 using lifetime ECL approach (not credit impaired).

	ECL rate	Gross amounts of trade receivables as at 31 March 2019
		HK$'000
Current (neither past due nor impaired)	3.1%	24,550
Within 1 to 3 months overdue	4.7%	5,958
Within 4 to 12 months overdue	10.8%	21,900
Over 12 months overdue	87.2%	25,012
		77,420

The estimated loss rates of trade receivables are estimated based on historical settlement data and taking into account time value of money and have been adjusted for forward-looking information such as gross domestic product growth rate that is available without undue cost or effort.

	Lifetime ECL (not credit impaired) *HK$'000*
At 31 March 2018 under HKAS 39	23,084
Adjustment upon application of HKFRS 9	840
At 1 April 2018 under HKFRS 9	23,924
Changes due to financial instruments recognised during the year:	
– Provision for expected credit loss allowances recognised	4,910
– Reversal of expected credit loss allowances recognised	(2,115)
– Exchange adjustments	(1,498)
	25,221

Changes in the expected credit loss allowance for trade receivables are mainly due to:

	As at 31 March 2019 Increase/ (decrease) in lifetime ECL (non-credit impaired) ***HK$'000***
Increase in trade receivables	**4,910**
Settlement of impaired trade receivables	**(2,115)**

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the year ended 31 March 2019, the revenue of the Group increased by approximately 16.1% to approximately HK$94,820,000 from approximately HK$81,670,000 for the year ended 31 March 2018. The increase in revenue was mainly attributable to the increase in the sales of tailor made tea products to customers associated with direct selling platform in the PRC. The gross profit of the Group decreased by approximately 4.0% to approximately HK$32,169,000 for the year ended 31 March 2019 from approximately HK$33,512,000 for the year ended 31 March 2018. Such decrease was mainly attributable to the decrease in profit margin of the tea business 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 sales associated to direct selling platforms.

Other income and gains of the Group for the year ended 31 March 2019 increased to approximately HK$8,282,000 from approximately HK$3,601,000 for the last corresponding year, mainly due to the increase from gain on disposal of the Group's financial assets at fair value through profit and loss of approximately HK$5,391,000.

Selling and distribution expenses remained at roughly the same level at approximately HK$31,832,000 for the year ended 31 March 2019 as compared to approximately HK$30,429,000 for the year ended 31 March 2018.

Administrative expenses amounted to approximately HK$32,441,000 for the year ended 31 March 2019, roughly remaining at the same level of approximately HK$30,946,000 for the corresponding period of last year.

Finance cost decreased to approximately HK$9,589,000 for the year ended 31 March 2019 from approximately HK$10,325,000 for the year ended 31 March 2018. Such decrease was mainly due to the decrease in effective interest expenses on the Convertible Bonds (as defined below). On 25 January 2019, being the maturity date of Convertible Bonds, the Company had fully paid the principal amount at the Convertible Bonds and interests accrued thereon. Since then, there would be no further effective interest expense derived from the Convertible Bonds for the coming financial year.

Income tax expense increased to approximately HK$714,000 for the year ended 31 March 2019 from approximately HK$15,000 for the year ended 31 March 2018. The increase was resulted from income tax provided for the gain on disposal of financial assets at fair value through profit or loss.

Loss attributable to owners of the Company for the year ended 31 March 2019 was approximately HK$36,920,000 (for the year ended 31 March 2018: loss attributable to owners of the Company of HK$33,902,000). The increase of loss for the year under review as compared to last year was mainly due to the decrease in gross profit resulting from the decrease in overall profit margin and increased expected credit loss allowances on trade receivables provided for the year ended 31 March 2019.

Basic loss per share was HK2.54 cents for the year ended 31 March 2019 against basic loss per share HK2.34 cents for the year ended 31 March 2018.

BUSINESS REVIEW

Tea and Other Food Products Businesses

During the year under review, the Group focused on distributing tea products under the well-established "Longrun（龍潤）" brand in the PRC market mainly through its distribution network of franchised and self-owned tea shops. Despite the poor spending sentiment had continued to affect the consumer market in the PRC generally, the Group made progress in diversifying its customer base by providing tailor made non– "Longrun（龍潤）" branded tea products to corporate customers in the PRC. Revenue for the year from tea and other food products businesses was approximately HK$90,947,000 (for the year ended 31 March 2018: HK$77,028,000), accounting for approximately 95.9% (for the year ended 31 March 2018: 94.3%) of the Group's total revenue.

In the second half of the financial year of 2019, the Group has successfully engaged two independent tea product manufacturers in Yunnan Province. The tea products procured from these two independent tea product manufacturers were in satisfactory quality standard and were sold through our network of franchised and self-owned tea shops. By diversifying its procurement sources, the Group can effectively reduce its potential business risk associated with the over reliance on a single supplier.

Tea Shops

The Group's traditional tea products bearing "Longrun（龍潤）" brand, including tea cakes, tea bricks, loose tea leaves, tea gift sets, instance tea essence and tea bags, etc., are sold in the Group's traditional tea shops network comprising both franchised and self-owned tea shops. As at 31 March 2019, the Group managed a network comprising a total of over 580 tea shops 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.

Mega Retail Outlets Targeting Tourists

Currently, there are two mega retail outlets in Yunnan Province whereby the Group's tourism associated customers will promote and distribute "Longrun（龍潤）" tea products to both domestic and international tourists travelling to Yunnan Province. The two mega retail outlets have a gross total area of over 5,500 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

Direct Selling

The Group distributed its tea products to direct selling enterprises in the PRC since 2014. Tea products sold to direct selling enterprises are mainly tailor made non-"Longrun（龍潤）" products. For the year under review, the consolidation and enhanced regulation of the PRC direct selling activities are still affecting the direct selling industry. However, the effect of industry consolidation and enhanced regulation is expected to decrease over time.

Against such background, the Group made significant progress in supplying 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 associated customers as compared to the last year. Those tea products sold which were tailor made tea products bearing the customer's brand name and onward distributed through its own direct selling platform.

The Group will continue to strengthen its business relationship with its customers by deploying more resources in new product design and development.

Healthcare and Pharmaceutical Business

During the year under review, revenue from healthcare and pharmaceutical business was approximately HK$3,873,000 (for the year ended 31 March 2018: HK$4,642,000), accounting for approximately 4.1% (for the year ended 31 March 2018: 5.7%) of the Group's total revenue. For the year ended 31 March 2019, the decrease in revenue from the healthcare and pharmaceutical business was mainly due to the intense competition in the health supplement market. In this regard, the Company is formulating a campaign to (i) educate the general public about the benefits of detoxification; (ii) expand the existing sales channels; and (iii) explore opportunities to sell the Group's products through various social media platforms and online stores.

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. Coupled with the trade tensions between China and the United States, 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 and new product development. Furthermore, it is essential for the Group to continue to expand its franchise network of tea shops and to explore other new distribution channels with a view to broaden its customer base. In addition, the Group will continue to explore opportunities to set up its own tea manufacturing base in Yunnan Province with a view to further reduce its reliance on its suppliers.

Liquidity and Financial Resources

The Group has consistently maintained sufficient working capital. As at 31 March 2019, the Group had current assets of HK$175,931,000 (2018: HK$287,745,000) and cash and bank balances and time deposits with original maturities of more than three months of HK$110,632,000 (2018: HK$249,649,000). The Group's current liabilities as at 31 March 2019 were HK$42,576,000 (2018: HK$113,050,000).

As at 31 March 2019, total equity was HK$138,084,000 (2018: HK$184,210,000). The Group had finance lease payables of HK$200,000 as at 31 March 2019 (2018: HK$467,000). The gearing ratio as at 31 March 2019, being the ratio of total liabilities to total equity, was 30.9% (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 (the "Maturity Date") 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 would be payable semi-annually in arrears until the Convertible Bonds are converted or matured. No Convertible Bonds had ever been converted or cancelled prior to the Maturity Date. During the year ended 31 March 2019 and upon the Maturity Date, the Company had paid to the holders of the Convertible Bonds a sum of HK$68,344,000, being an amount equal to the aggregate of 100% of the principal amount of the Convertible Bonds outstanding and interest accrued and outstanding up to the Maturity Date pursuant to the terms and conditions of the Convertible Bonds. All Convertible Bonds were cancelled thereafter. Details of the Convertible Bonds are set out in the announcements of the Company dated 11 December 2016, 19 January 2017, 27 January 2017, 6 February 2017 and 15 February 2019.

Employees

As at 31 March 2019, the Group had 231 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 31 March 2019, 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 31 March 2019, no Group's assets have been pledged.

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.

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 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, Moore Stephens CPA Limited, to the amounts set out in the Group's consolidated financial statements for the year ended 31 March 2019. 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 2019:

Qualified Opinion

In our opinion, except for the possible effects on the corresponding figures of the matter described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

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

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

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

Also, the closing balances as at 31 March 2017 of the assets and liabilities of the Group, including that of the Loan, are brought forward as the opening balances as at 1 April 2017 and hence entered into the determination of the consolidated financial performance and consolidated cash flows of the Group for the year ended 31 March 2018. Accordingly, any adjustments found to be necessary to the closing balances of the assets and liabilities as at 31 March 2017 in respect of the Loan may have significant effects on the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the year ended 31 March 2018 presented as comparative figures in these consolidated financial statements and hence on the comparability of the current year's figures and the comparative figures. The matters disclosed above no longer have possible effects on the figures presented in the consolidated statement of financial position of the Group as at 31 March 2018.

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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 2019 (2018: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 23 August 2019 to Wednesday, 28 August 2019 (both days inclusive), during which period no share transfer will be effected. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company to be held on 28 August 2019, unregistered holders of shares of the Company should ensure that all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:30 p.m. on Thursday, 22 August 2019.

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 2019, including accounting principles and practices adopted by the Group, and discussed internal controls, risk management and financial reporting matters.

CORPORATE GOVERNANCE

The Company recognises the importance of corporate governance for enhancing the management of the Company as well as preserving the interests of its shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the year ended 31 March 2019, except for code provision A.4.2 which states that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every 3 years.

Due to the Audit Findings, the publication of annual results and dispatch of annual report for the years ended 31 March 2017 and 2018, as well as the publication of interim results and dispatch of interim report for the six months ended 30 September 2017, 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 in year 2017, Ms. Yeh Shu Ping, 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 annual general meeting of the Company held on 24 December 2018, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang, Dr. He William, Mr. Kwok Hok Lun and Dr. Liu Zhonghua retired and were re-elected. Accordingly, the said code provision A.4.2 was then complied with.

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.

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, 26 June 2019

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.