



LongRun

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LONGRUN TEA GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 2898

Interim Report

2017



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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

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

Certified Public Accountants
Moore Stephens CPA Limited
801-806 Silvercord,
Tower 1, 30 Canton Road,
Tsimshatsui, Kowloon, Hong Kong
(appointed on 4 October 2017)

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

INTERIM FINANCIAL INFORMATION

The directors of Longrun Tea Group Company Limited (the “Company”) announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2017, together with the comparative figures for the corresponding period in 2016, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2017

| | Notes | For the six months ended 30 September | |
|--|-------|--|---|
| | | 2017 (Unaudited) HK\$'000 | 2016 (Unaudited) (Restated) HK\$'000 |
| REVENUE | 3 | 45,261 | 66,189 |
| Cost of sales | | (27,088) | (37,356) |
| Gross profit | | 18,173 | 28,833 |
| Other income and gains | 4 | 1,899 | 2,735 |
| Interest income from loan receivable | | 666 | 400 |
| Selling and distribution expenses | | (14,009) | (17,313) |
| Administrative expenses | | (15,122) | (14,088) |
| Other operating expenses | | (12) | (4,732) |
| Finance costs | 5 | (5,009) | (20) |
| LOSS BEFORE TAX | 6 | (13,414) | (4,185) |
| Income tax expense | 7 | (7) | – |
| LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY | | (13,421) | (4,185) |
| LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY | 9 | | |
| – Basic | | (HK\$0.92 cent) | (HK\$0.29 cent) |
| – Diluted | | (HK\$0.92 cent) | (HK\$0.29 cent) |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2017

| | For the six months ended 30 September | |
|--|--|--|
| | 2017 (Unaudited) <i>HK\$'000</i> | 2016 (Unaudited) (Restated) <i>HK\$'000</i> |
| LOSS FOR THE PERIOD | (13,421) | (4,185) |
| OTHER COMPREHENSIVE LOSS | | |
| <i>Items that may be reclassified subsequently to profit and loss:</i> | | |
| Changes in fair value of available-for-sale investment | (150) | – |
| Exchange differences arising on translation of foreign operations | 5,297 | (4,937) |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF INCOME TAX | 5,147 | (4,937) |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY | (8,274) | (9,122) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2017

| | Notes | 30 September 2017 (Unaudited) HK\$'000 | 31 March 2017 (Audited) HK\$'000 |
|--|-----------|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | 2,575 | 2,566 |
| Available-for-sale financial asset | | 7,350 | – |
| Total non-current assets | | 9,925 | 2,566 |
| CURRENT ASSETS | | | |
| Inventories | | 3,917 | 3,974 |
| Trade receivables | 11 | 18,791 | 25,392 |
| Prepayments, deposits and other receivables | | 7,899 | 6,661 |
| Loan receivable | 12 | – | 161,055 |
| Time deposits with original maturities of more than three months | | 30,738 | 30,593 |
| Cash and cash equivalents | | 239,872 | 111,439 |
| Total current assets | | 301,217 | 339,114 |
| CURRENT LIABILITIES | | | |
| Trade payables | 13 | 5,108 | 22,383 |
| Other payables, accruals and receipts in advance | | 49,035 | 56,047 |
| Finance lease payables | | 416 | 409 |
| Due to related companies | 20(b)(i) | 884 | 1,409 |
| Due to directors of the Company | 20(b)(ii) | 3,713 | 3,507 |
| Total current liabilities | | 59,156 | 83,755 |



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 September 2017

| | Notes | 30 September 2017 (Unaudited) HK\$'000 | 31 March 2017 (Audited) HK\$'000 |
|---|-------|---|---|
| NET CURRENT ASSETS | | 242,061 | 255,359 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 251,986 | 257,925 |
| NON-CURRENT LIABILITIES | | | |
| Convertible bonds | 14 | 55,244 | 52,032 |
| Finance lease payables | | 257 | 467 |
| Deferred income | | 483 | 1,150 |
| TOTAL NON-CURRENT LIABILITIES | | 55,984 | 53,649 |
| NET ASSETS | | 196,002 | 204,276 |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Issued share capital | 15 | 72,576 | 72,576 |
| Reserves | | 123,426 | 131,700 |
| Total equity | | 196,002 | 204,276 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2017

| | Issued share capital (unaudited) HK\$'000 | Share premium (unaudited) HK\$'000 | Contributed surplus (unaudited) HK\$'000 | Employee share-based compensation reserve (unaudited) HK\$'000 | Convertible bonds equity reserve (unaudited) HK\$'000 | Asset revaluation reserve (unaudited) HK\$'000 | Exchange fluctuation reserve (unaudited) HK\$'000 | Accumulated losses (unaudited) HK\$'000 | Total equity (unaudited) HK\$'000 |
|---|---|---|---|---|---|--|---|--|--|
| At 1 April 2017 | 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 investment | - | - | - | - | - | (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 | 72,576 | 253,001* | 300* | 6,129* | 12,549* | (150)* | 5,096* | (153,499)* | 196,002 |
| At 1 April 2016 | 72,476 | 252,319 | 300 | - | - | - | 8,704 | (107,647) | 226,152 |
| Loss for the period | - | - | - | - | - | - | - | (4,185) | (4,185) |
| Other comprehensive loss for the period: | | | | | | | | | |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | - | (4,937) | - | (4,937) |
| Total comprehensive loss for the period | - | - | - | - | - | - | (4,937) | (4,185) | (9,122) |
| At 30 September 2016 | 72,476 | 252,319 | 300 | - | - | - | 3,767 | (111,832) | 217,030 |

* *These reserve accounts comprise the consolidated reserves of approximately HK\$123,426,000 (unaudited) (31 March 2017: HK\$131,700,000) in the condensed consolidated statement of financial position.*



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2017

| | For the six months ended 30 September | |
|--|--|--|
| | 2017 (Unaudited) <i>HK\$'000</i> | 2016 (Unaudited) (Restated) <i>HK\$'000</i> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash used in operations | (30,282) | (16,858) |
| Income tax paid | (7) | (11) |
| Net cash flows used in operating activities | (30,289) | (16,869) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Bank interest received | 556 | 2,102 |
| Purchases of items of property, plant and equipment | (452) | (425) |
| Proceeds from disposal of items of property, plant and equipment | 21 | 168 |
| Cash inflow from disposal of subsidiaries | – | 49,825 |
| Payment of acquisition of available-for-sale financial asset | (7,500) | – |
| Repayment from/(advance of) a loan receivable and interest receivable | 165,706 | (70,648) |
| (Increase)/decrease in short term time deposits with original maturities of more than three months | (145) | 63,147 |
| Net cash flows from investing activities | 158,186 | 44,169 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayments of finance lease payables | (203) | (239) |
| Interest of convertible bonds paid | (1,782) | – |
| Interest paid on finance leases | (15) | (20) |
| Advances/(repayments of advances) from directors of the Company | 206 | (4,066) |
| Net cash flows used in financing activities | (1,794) | (4,325) |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

For the six months ended 30 September 2017

| | For the six months ended | |
|---|--|--|
| | 30 September 2017 (Unaudited) <i>HK\$'000</i> | 2016 (Unaudited) (Restated) <i>HK\$'000</i> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 126,103 | 22,975 |
| Cash and cash equivalents at beginning of period | 111,439 | 53,053 |
| Effect of foreign exchange rate changes, net | 2,330 | (303) |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 239,872 | 75,725 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 149,651 | 75,725 |
| Time deposits with original maturities of less than three months | 90,221 | – |
| Cash and cash equivalents as stated in the condensed consolidated statement of cash flows | 239,872 | 75,725 |



NOTES TO INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2017

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

The condensed consolidated interim financial information for the six months ended 30 September 2017 of the Group has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants.

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 2017 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 2017 that is included in the 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 2017 are available from the Company's principal place of business in Hong Kong. The auditor has disclaimed an opinion on those consolidated 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 2017. The accounting policies and basis of preparation adopted in the preparation of the interim financial information are the same as those used in the annual financial statements for the year ended 31 March 2017, except in relation to the following new and revised HKFRSs, which also include HKASs and Interpretations that affect the Company and the Group has adopted for the first time for the current period's financial information.

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

(Continued)

| | |
|---|--|
| HKAS 7 Amendments | Disclosure Initiative |
| HKAS 12 Amendments | Recognition of Deferred Tax Assets for Unrealised Losses |
| HKFRS 12 Amendments included in Annual Improvements 2014-2016 Cycle | Disclosure of interest in Other Entities |

Adoption of the above revised HKFRSs did not have any material effect on the financial positions or performance of the Group and/or on the disclosures set out in these unaudited interim financial information.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a potential impact on its results of operations and financial position.

In addition, new accounting policies that are adopted by the Group for the six months ended 30 September 2017 as below:

Available-for-sale financial asset

Available-for-sale financial asset is non-derivative financial asset in listed and unlisted equity investments and debt securities. Equity investment classified as available for sale is that which is neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial asset is measured at fair value. Unrealised gains or losses (except for changes in exchange rates for monetary items, interest, dividends and impairment losses which are recognised in the consolidated statement of profit or loss) are recognised in other comprehensive income until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is taken to the consolidated statement of profit or loss. Interest and dividends earned whilst holding the available-for-sale financial asset is reported as interest income and dividend income, respectively and are recognised in the consolidated statement of profit or loss as other income and gain.

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

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

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

Available-for-sale financial asset (Continued)

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

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss – is removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the consolidated statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income. The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Fair value measurement

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

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

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

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

Fair value measurement (Continued)

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2. PRIOR YEAR ADJUSTMENT

In preparing the unaudited condensed consolidated financial information of the Group for the six month ended 30 September 2017, the directors of the Company have revisited the facts and circumstances of certain areas and identified certain errors. The interim financial information for the six months ended 30 September 2016 have been restated to correct those errors identified. The effect of the restatements to the condensed statement of profit or loss and condensed statement of comprehensive income is as below:

The directors of the Company notified that the accounting staff of a subsidiary of the Company had failed to make appropriate entries in the accounts of that subsidiary to reflect a loan advanced and resulted in overstatement of bank balance, the understatement of loan receivable and interest income from loan receivable. Details are set out in the announcement of the Company dated 28 February 2018. The effect of the restatement to the consolidated statement of financial position is to increase loan receivable and at the same time, to decrease bank balance by HK\$70,648,000, while the effect of the restatement to the condensed consolidated statement of profit or loss and condensed consolidated statement of comprehensive income is to increase the interest income from loan receivable by approximately HK\$400,000 and the exchange differences arising on translation of foreign operations by approximately HK\$5,000 for the six months ended 30 September 2016. Details of which were set out in the Company's announcement dated 22 June 2018.



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

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

(a) Business segment

| | For the six months ended 30 September | | | | | |
|---|---|---------------------|---|---------------------|---------------------|-----------------------------------|
| | Distribution of pharmaceutical products | | Distribution of tea and other food products | | Total | |
| | 2017 (Unaudited) | 2016 (Unaudited) | 2017 (Unaudited) | 2016 (Unaudited) | 2017 (Unaudited) | 2016 (Unaudited) (Restated) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | |
| Sales to external customers | 2,795 | 3,935 | 42,466 | 62,254 | 45,261 | 66,189 |
| Other income | 101 | 17 | 1,221 | 927 | 1,322 | 944 |
| Total | 2,896 | 3,952 | 43,687 | 63,181 | 46,583 | 67,133 |
| Segment results | (3,258) | (2,359) | 761 | 2,441 | (2,497) | 82 |
| Reconciliation: | | | | | | |
| Banks interest income | | | | | 556 | 1,599 |
| Gain on disposal of items of property, plant and equipment, net | | | | | 21 | 168 |
| Interest income from loan receivable | | | | | 666 | 400 |
| Impairment losses of property, plant and equipment | | | | | - | (303) |
| Write off of items of property, plant and equipment | | | | | (5) | - |
| Exchange gain | | | | | - | 24 |
| Corporate and other unallocated expenses | | | | | (7,146) | (6,135) |
| Finance costs | | | | | (5,009) | (20) |
| Loss before tax | | | | | (13,414) | (4,185) |

3. REVENUE AND SEGMENT INFORMATION (Continued)

(b) Geographical information

Revenue from external customers:

| | For the six months ended 30 September | |
|--|--|-------------|
| | 2017 | 2016 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| The People's Republic of China (the "PRC"), excluding Hong Kong | 38,613 | 58,961 |
| Hong Kong | 2,795 | 3,809 |
| Elsewhere in Asia | 1,754 | 3,419 |
| United States of America | 2,099 | – |
| | 45,261 | 66,189 |

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

4. OTHER INCOME AND GAINS

| | For the six months ended 30 September | |
|--|--|-------------|
| | 2017 | 2016 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Other income | | |
| Bank interest income | 556 | 1,599 |
| Franchise income | 771 | 776 |
| Subsidy income [^] | 391 | – |
| Others | 160 | 192 |
| | 1,878 | 2,567 |
| Gains | | |
| Gain on disposal of items of property, plant and equipment, net | 21 | 168 |
| | 1,899 | 2,735 |

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

5. FINANCE COSTS

| | Note | For the six months ended 30 September | |
|--|------|--|---------------------------------|
| | | 2017 (Unaudited) HK\$'000 | 2016 (Unaudited) HK\$'000 |
| Interest on finance leases | | 15 | 20 |
| Effective interest expense on Convertible Bonds | 14 | 4,994 | – |
| | | 5,009 | 20 |

6. LOSS BEFORE TAX

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

| | For the six months ended 30 September | |
|--|--|---------------------------------|
| | 2017 (Unaudited) HK\$'000 | 2016 (Unaudited) HK\$'000 |
| Cost of inventories recognised as an expense | 26,922 | 37,049 |
| Depreciation | 501 | 711 |
| Write off of items of property, plant and equipment | 5 | – |
| Impairment losses of trade receivables | – | 5,614 |
| Impairment losses of property, plant and equipment | – | 303 |
| Impairment losses of other receivables | – | 59 |
| Reversal of impairment losses of trade receivables | – | (1,225) |

7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for both periods. 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 | |
| | 2017 | 2016 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Current – PRC Enterprise Income Tax ("EIT") | | |
| – For the current period | 4 | – |
| – Underprovision in prior years | 3 | – |
| Total income tax charge for the period | 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)[®], 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.

8. INTERIM DIVIDEND

The directors of the Company did not propose to declare any interim dividend for the six months ended 30 September 2017 and for the six months ended 30 September 2016.

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



9. 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 2017 attributable to owners of the Company of approximately HK\$13,421,000 (six months ended 30 September 2016: HK\$4,185,000 (restated)) and the weighted average number of ordinary shares of approximately 1,451,520,000 (six months ended 30 September 2016: 1,449,520,000) in issue during the period.

For the six months ended 30 September 2017, the computation of diluted loss per share did not assume the conversion of the Company's outstanding Convertible bonds and exercise of outstanding share options since their assumed exercise would result in a decrease in loss per share.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 September 2016 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the six months ended 30 September 2016.

10. PROPERTY, PLANT AND EQUIPMENT

During the current period, the Group acquired property, plant and equipment of approximately HK\$452,000 (six months ended 30 September 2016: HK\$990,000).

11. TRADE RECEIVABLES

The Group allows an average credit period ranging from 30 to 90 (30 September 2016: 60 to 180) days to its customers. Trade receivables are non-interest-bearing.

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

| | 30 September 2017 (Unaudited) HK\$'000 | 31 March 2017 (Audited) HK\$'000 |
|----------------|---|---|
| Within 1 month | 7,176 | 5,676 |
| 2 to 3 months | 3,924 | 8,056 |
| 4 to 12 months | 7,453 | 10,481 |
| Over 12 months | 238 | 1,179 |
| | 18,791 | 25,392 |

Included in the Group's trade receivables are trade receivables due from 理想科技集團有限公司 (Ideality Technology Group Company Limited)[®] ("Ideality Group"), a related party of the Group, of approximately HK\$1,762,000 (31 March 2017: HK\$6,941,000), which are repayable on similar credit terms to those offered to the major customers of the Group. All balances are due within 12 months and no impairment loss is provided. Ideality Group is beneficially owned as to 85.5% and 14.5% by Dr. Chiu Ka Leung ("Dr. Chiu") and Mr. Jiao Shaoliang ("Mr. Jiao"), respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also a substantial shareholder of the Company.

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

12. LOAN RECEIVABLE

| | 30 September 2017 (Unaudited) HK\$'000 | 31 March 2017 (Audited) HK\$'000 |
|--|---|---|
| Fixed-rate loan receivable | – | 155,138 |
| Interest receivable on loan receivable | – | 5,917 |
| | – | 161,055 |

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 is denominated in Renminbi (“RMB”), which is unsecured, interest-bearing at fixed rate of 9% per annum and would be repayable within 6 months after the available date of releasing advance as prescribed in the loan agreement, which was approved by the directors of the subsidiary of the Group. The loan was paid to FLRT, CLRT and YLRP (as defined in notes 13 and 20(b)(i)) at the instruction of the Borrower. The loan interest income of approximately HK\$666,000 (six months ended 30 September 2016: HK\$400,000 (restated)) was recognised in the “Interest income from loan receivable” in the consolidated statement of profit or loss for the six months ended 30 September 2017. At 31 March 2017, the loan and interest receivable have been past due and repayable on demand. The loan receivable and interest thereon are fully repaid by the Borrower and LRTG (as defined in note 13) at the instruction of the Borrower during the six month ended 30 September 2017. Details of the loan are set out in the announcement of the Company dated 28 February 2018.

13. TRADE PAYABLES

The trade payables are non-interest-bearing and are normally settled in 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 2017 (Unaudited) HK\$'000 | 31 March 2017 (Audited) HK\$'000 |
|-------------------------------|---|---|
| Current and not past due | 4,379 | 9,535 |
| Within 1 to 3 months overdue | 131 | 11,585 |
| Within 4 to 12 months overdue | 61 | 731 |
| Over 12 months overdue | 537 | 532 |
| | 5,108 | 22,383 |

13. TRADE PAYABLES (Continued)

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

| | 30 September 2017 (Unaudited) HK\$'000 | 31 March 2017 (Audited) HK\$'000 |
|--|---|---|
| Yunnan Longrun Tea Group Company Limited [®] ("LRTG") 雲南龍潤茶業集團有限公司 | 1,956 | 7,779 |
| Fengqing Longrun Tea Company Limited [®] ("FLRT") 鳳慶龍潤茶業有限公司 | 1,061 | 6,721 |
| Changning Longrun Tea Company Limited [®] ("CLRT") 昌寧縣龍潤茶業有限公司 | 1,226 | 7,038 |
| Yunnan Long Far Pharmaceutical Company Limited [®] ("YNLF") 雲南龍發製藥股份有限公司 | 302 | 316 |
| | 4,545 | 21,854 |

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

14. CONVERTIBLE BONDS

On 27 January 2017, the Company issued 5.5% Convertible bonds which are denominated in Hong Kong dollars with an aggregate principle 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 of 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.

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

14. CONVERTIBLE BONDS (Continued)

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

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

The fair value of the liability component on initial recognition was included in non-current liabilities, as the Convertible Bonds are due on the second anniversary of the date of issue of the Convertible Bonds, was derived from present value of future cash flow 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 issued have been split as to the liability and equity components, as follows:

| | | <i>HK\$'000</i> | |
|---|------|---------------------|------------------|
| Equity component | | | |
| Proceeds at the date of issuance | | | 64,800 |
| Transaction cost attributable to issuance of Convertible Bonds allocated to equity component | | | (365) |
| Liability component, at the date of issuance | | | (51,886) |
| Equity component, at 31 March 2017 (audited), | | | |
| 1 April 2017 (audited) and 30 September 2017 (unaudited) | | | 12,549 |
| | | 30 September | 31 March |
| | | 2017 | 2017 |
| | | (Unaudited) | (Audited) |
| | Note | HK\$'000 | HK\$'000 |
| Liability component | | | |
| At the beginning of the period/year | | 52,032 | – |
| At the date of issuance | | – | 51,886 |
| Transaction cost attributable to issuance of Convertible Bonds allocated to liability component | | – | (1,468) |
| Effective interest expense | | 4,994 | 1,614 |
| | 5 | (1,782) | – |
| Liability components, at the end of the period/year | | 55,244 | 52,032 |

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

15. ISSUED SHARE CAPITAL

| | 30 September 2017 (Unaudited) HK\$'000 | 31 March 2017 (Audited) 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 2016 (audited) and 30 September 2016 (unaudited) | 1,449,520,000 | 72,476 |
| Exercise of share options (note) | 2,000,000 | 100 |
| At 31 March 2017 (audited), 1 April 2017 (audited) and 30 September 2017 (unaudited) | 1,451,520,000 | 72,576 |

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

Share Options

Details of the Company's share option scheme and the share options issued are included in note 16 to this report of interim financial information.

16. EQUITY COMPENSATION PLANS

Share Option Scheme

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

16. EQUITY COMPENSATION PLANS *(Continued)*

Share Option Scheme *(Continued)*

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 of Hong Kong Limited (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.

16. 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.

At 30 September 2017, 51,400,000 (31 March 2017: 51,400,000) share options were outstanding under the Scheme. During the six months ended 30 September 2017, no share options were granted, exercised or lapsed (six months ended 30 September 2016: Nil).

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 valuer, taking into account the terms and conditions upon which the share options were granted. These fair values were calculated using Black-Scholes Pricing Model. 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 are based on the best estimate of an independent professional valuer. The expected volatility is based on the historical daily volatility of the Company's stock price (calculated based on the remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Change in the subjective input assumptions could materially affect the fair value estimate.

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

17. MAJOR NON-CASH TRANSACTION

During the current period, the Group entered into a finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of the lease of approximately HK\$917,000 (six months ended 30 September 2016: HK\$565,000).

18. OPERATING LEASES COMMITMENTS

(a) As lessor

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

At 30 September 2017 and 31 March 2017, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

| | 30 September 2017 (Unaudited) HK\$'000 | 31 March 2017 (Audited) HK\$'000 |
|-----------------|---|---|
| Within one year | 89 | 89 |

(b) As lessee

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

At 30 September 2017 and 31 March 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 30 September 2017 (Unaudited) HK\$'000 | 31 March 2017 (Audited) HK\$'000 |
|---|---|---|
| Within one year | 5,698 | 3,619 |
| In the second to fifth years, inclusive | 1,487 | 2,749 |
| | 7,185 | 6,368 |

19. CONTINGENT LIABILITIES

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



20. RELATED PARTY TRANSACTIONS AND BALANCES

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

| Name of related parties | Notes | For the six months ended | |
|---|--------------|---------------------------------|---------------------------------|
| | | 2017 (Unaudited) HK\$'000 | 2016 (Unaudited) HK\$'000 |
| Sales of tea products to: | | | |
| Ideality Group^ | (i), (vii) | 1,187 | 4,614 |
| Purchases of tea products from: | | | |
| CLRT^ | (iii), (vii) | 8,029 | 8,050 |
| FLRT^ | (iii), (vii) | 10,337 | 9,207 |
| YLRT | (iv), (vii) | – | 105 |
| LRTG^ | (ii), (vii) | 6,905 | 20,033 |
| YTET^ | (vi), (vii) | 295 | – |
| | | 25,566 | 37,395 |
| Purchase of pharmaceutical products from: | | | |
| YNLF | (v), (vii) | 270 | 182 |
| Rental expense incurred to: | | | |
| YLRT | (iv), (vii) | 243 | 247 |

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, respectively.
- (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, respectively.
- (iii) The companies are wholly-owned subsidiaries of LRTG.

20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(a) (Continued)

Notes: (Continued)

- (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.
- (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公司, is the 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 2017 and 2016 also constituted continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).*

(b) Outstanding balances with related parties

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

- (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 a 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 Long Run Investment 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) Included in the other payables, the amount due to a related company, YLRT, of approximately HK\$862,000 (31 March 2017: HK\$592,000) 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.*

20. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(c) Compensation of key management personnel of the Group

| | For the six months ended 30 September | |
|--|--|---------------------------------|
| | 2017 (Unaudited) HK\$'000 | 2016 (Unaudited) HK\$'000 |
| Short term employee benefits | 4,998 | 3,936 |
| Post-retirement benefits | 54 | 51 |
| Total compensation paid to key management personnel | 5,052 | 3,987 |

21. FAIR VALUE AND FAIR VALUE HIERARCHY

Except for the available-for-sale financial asset, the carrying amounts of the other Group's financial instruments as at 30 September 2017 and 31 March 2017 approximate to their fair values.

Fair value measurement

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).

| | For the six months ended 30 September 2017 | | | |
|---------------------------------------|--|---------------------|---------------------|-------------------|
| | Level 1 HK\$'000 | Level 2 HK\$'000 | Level 3 HK\$'000 | Total HK\$'000 |
| Available-for-sale financial asset | | | | |
| – Listed equity securities | 7,350 | - | - | 7,350 |

There was no transfer between instruments in Level 1 and Level 2, any transfer in, out of level 3 during the six months ended 30 September 2017.

22. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

This interim financial information was approved and authorised for issue by the board of directors on 10 October 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the six months ended 30 September 2017, the revenue of the Group decreased by approximately 31.6% to approximately HK\$45,261,000 (six months ended 30 September 2016: HK\$66,189,000). The gross profit of the Group decreased by approximately 37.0% to approximately HK\$18,173,000 (six months ended 30 September 2016: HK\$28,833,000). The decrease in revenue 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) the effect of industry consolidation and enhanced regulation of the direct selling industry in the PRC.

Other income and gains of the Group for the six months ended 30 September 2017 was approximately HK\$1,899,000 (six months ended 30 September 2016: HK\$2,735,000), decreased by approximately 30.6% over the corresponding period last year. The decrease was mainly due to the decrease in the fixed deposit interest income from banks in the PRC.

Selling and distribution expenses of the Group decreased by approximately 19.1% from approximately HK\$17,313,000 for the six months ended 30 September 2016 to approximately HK\$14,009,000 for the six months ended 30 September 2017. Administrative expenses of the Group increased by approximately 7.3% from approximately HK\$14,088,000 for the six months ended 30 September 2016 to approximately HK\$15,122,000 for the six months ended 30 September 2017. The increase in administrative expenses was mainly attributable to the increase in professional fee.

Other operating expenses of the Group decreased to approximately HK\$12,000 for the six months ended 30 September 2017 (six months ended 30 September 2016: HK\$4,732,000). The substantial decrease was mainly due to the decrease in the impairment of trade receivables and property, plant and equipment in respect of the tea and other food products businesses. However, these impairments had no impact on the cash flow of the Group as they were non-cash expenses.

Loss before tax of the Group increased by approximately 220.5% from approximately HK\$4,185,000 for the six months ended 30 September 2016 to approximately HK\$13,414,000 for the six months ended 30 September 2017. Loss for the period attributable to owners of the Company for the six months ended 30 September 2017 amounted to approximately HK\$13,421,000 (six months ended 30 September 2016: loss of HK\$4,185,000). The increase of loss for the period under review as compared to the corresponding period last year was mainly due to the decrease in revenue and gross profit.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FINANCIAL RESULTS (Continued)

Basic loss per share was HK0.92 cent for the six months ended 30 September 2017 against basic loss per share of HK0.29 cent for the six months ended 30 September 2016.

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 has continued to affect the consumer market in the PRC generally. Revenue for the period from tea and other food products businesses was approximately HK\$42,466,000 (six months ended 30 September 2016: HK\$62,254,000), accounting for approximately 93.8% (six months ended 30 September 2016: 94.1%) of the Group’s total revenue.

Tea Shops

Our traditional and convenient tea products, i.e. tea cake, loose tea leaves, tea gift set, convenient tea cups, instance tea essence and tea bags, etc., are sold in traditional tea shops. As at 30 September 2017, the Group managed a network comprising a total of over 600 self-owned and franchised tea shops primarily 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

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 remaining 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

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

Direct Selling

The Group started to distribute its tea products through direct selling platform in 2014. During the period under review, revenue generated from direct selling network are still affected by the consolidation and enhanced regulation of the PRC direct selling industry. However, the effect of industry consolidation and enhanced regulation of the direct selling industry is expected to decrease over time. We intended to explore business opportunities by deploying more resources in new product development for this platform and to develop cooperation with other major direct selling enterprises in the PRC.

Healthcare and Pharmaceutical Business

During the period under review, revenue from healthcare and pharmaceutical businesses was approximately HK\$2,795,000 (six months ended 30 September 2016: HK\$3,935,000), accounting for approximately 6.2% (six months ended 30 September 2016: 5.9%) of the Group's total revenue.

PROSPECTS

The Group's operating environment remains very challenging. The cautious consumer sentiment in the PRC has been adversely affecting the domestic retail market. The Group will continue to enhance its efficiency through effective management across its operations. Efforts has been made to explore business opportunities in relation to setting up our own production facilities as well as to develop business cooperation with direct selling companies in the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 September 2017, the Group had current assets of HK\$301,217,000 (31 March 2017: HK\$339,114,000) and cash and cash equivalents of HK\$239,872,000 (31 March 2017: HK\$111,439,000). The Group's current liabilities as at 30 September 2017 were HK\$59,156,000 (31 March 2017: HK\$83,755,000).

As at 30 September 2017, total equity was HK\$196,002,000 (31 March 2017: HK\$204,276,000). The Group had finance lease payables of HK\$673,000 as at 30 September 2017 (31 March 2017: HK\$876,000). The gearing ratio as at 30 September 2017, being the ratio of total liabilities to total equity, was 58.7% (31 March 2017: 67.3%).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

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

EMPLOYEES

As at 30 September 2017, the Group had 278 employees (31 March 2017: 339 employees).

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

CONTINGENT LIABILITIES

As at 30 September 2017, 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

PLEDGE OF THE GROUP'S ASSETS

As at 30 September 2017, the Group's assets have not been pledged to secure banking facilities granted to the Group.

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

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



SUPPLEMENTARY INFORMATION

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

As at 30 September 2017, 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 of Hong Kong Limited (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 2017.

In addition to the above, as at 30 September 2017, Dr. Chiu Ka Leung holds one ordinary share in each of Long Far Herbal Medicine Manufacturing (Hong Kong) Limited, International Health Association (HK) Limited, Long Far Health Products Limited and Hong Kong Health Journal Limited (in all cases in trust for Long Far Pharmaceutical (BVI) Limited and all 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. Both of International Health Association (HK) Limited and Hong Kong Health Journal Limited were dissolved by deregistration on 13 October 2017.

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 2017, 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 2017, 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 2017.*

Save as disclosed above, as at 30 September 2017, 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 16 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 2017 are as follows:

| Name or category of option holder | Outstanding as at 1 April 2017 | Number of share options | | | | Outstanding as at 30 September 2017 | 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 during the period | 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. From the date of issue of the Convertible Bonds and up to 30 September 2017, no notice has 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 14 to the interim financial statements 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 2017:

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 2017, including accounting principles and practices adopted by the Group, and discussed internal controls, risk management and financial reporting matters.

CORPORATE GOVERNANCE

The Company recognises the importance of corporate governance for enhancing the management of the Company as well as preserving the interests of 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 2017, except for code provision A.4.2 which states that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every 3 years.

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



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 2017.

By Order of the Board
Chiu Ka Leung
Chairman

Hong Kong, 10 October 2018