Interim Report
2018/19

中發展控股有限公司
ZHONG FA ZHAN HOLDINGS LIMITED

Incorporated in the Cayman Islands with limited liability
Stock Code : 00475

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Wu Hao *(Chairman)*
Mr. Hu Yangjun
Mr. Chan Wing Yuen, Hubert *(Chief Executive)*

Non-executive Director

Mr. Li Wei Qi, Jacky

Independent non-executive Directors

Mr. Wu Chi Keung
Ms. Kwok Pui Ha (resigned on 6 September 2018)
Mr. Jin Qingjun
Ms. Sun, Ivy Connie (appointed on 23 November 2018)

Audit Committee

Mr. Wu Chi Keung *(Chairman)*
Ms. Kwok Pui Ha (resigned on 6 September 2018)
Mr. Jin Qingjun
Ms. Sun, Ivy Connie (appointed on 23 November 2018)

Remuneration Committee

Mr. Wu Chi Keung *(Chairman)*
Mr. Chan Wing Yuen, Hubert
Mr. Jin Qingjun

Nomination Committee

Mr. Wu Chi Keung *(Chairman)*
Mr. Chan Wing Yuen, Hubert
Ms. Kwok Pui Ha (resigned on 6 September 2018)
Ms. Sun, Ivy Connie (appointed on 23 November 2018)

Company Secretary

Mr. Chow Chi Shing

Head Office and Principal Place of Business in Hong Kong

Room 2202, 22/F., Chinachem Century Tower
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Wanchai
Hong Kong

Registered Office

Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Share Registrar

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

The Hong Kong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Shanghai Pudong Development Bank

Legal Advisers

K&L Gates
Angela Ho & Associates

Auditor

Deloitte Touche Tohmatsu

Company Website

www.475hk.com

Stock Code

475

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the six months ended 30 September 2018 (the "Current Period"), the Group has been principally focusing on its jewelry wholesale business and the development of the solar energy business.

Jewelry Business

The jewelry business remains as one of the principal business of the Group. For the Current Period, revenue of the jewelry business mainly was derived from the PRC and Hong Kong. China's overall economy maintained a reasonable pace of growth during the third quarter of 2018 and the environment remained stable as a whole. The purchasing power of customers in Hong Kong remained solid and the demand for jewelry products kept increasing.

For the Current Period, segment revenue from the jewelry business amounted to approximately HK$23.9 million, representing a significant increase of approximately 138.6% as compared to approximately HK$10.0 million for the six months ended 30 September 2017 (the "Previous Period"). Such increase in segment revenue was mainly attributable to increasing orders placed during the Current Period by those customers who started the cooperation since last year, as well as the jewelry market in the PRC remained favourable. The Group secured supply stability and controlled its purchasing costs through its long-term supply network, so as to satisfy the various needs of its customers. As the overall consumption environment in the PRC and Hong Kong has fully recovered in the last year, the number of sales orders from our customers has increased accordingly, especially Hong Kong's jewelry market, in which the demand remained strong and the market players were actively developing their procurement networks with an aim of satisfying the increasing demands. In view of this, the jewelry business division of the Group has recruited more staff during the Current Period so as to ensure good and effective communications with its customers and attentive procurement. As such, our customers of the jewelry business in Hong Kong have built more confidence in us, and increased their purchases from the Group during the Current Period. In light of the foregoing, the Group has enhanced its sales and procurement networks for its jewelry business in Hong Kong. For the Current Period, segment sales from the jewelry business in Hong Kong accounted for approximately 44.7% of the whole segment sales for the period, which was significantly increased from approximately 18.8% for the corresponding period. Meanwhile, our elite team of sales staff and business consultants have participated in several jewelry exhibitions during the Current Period, including various regional and international jewelry exhibitions held in Hong Kong, Shenzhen, Beijing and Shanghai, to explore business opportunities with new customers and suppliers.

In addition to the offline sales, the Group is actively considering to expand into the e-commerce sector and has entered into negotiations with an e-commerce operations solution provider during the Current Period to develop strategic partnership. We are expected to establish online fashion jewelry stores with the assistance and consultation of the potential business partner. We are also currently negotiating for regional sales agency with several fashion jewelry brands from South Korea and other countries, and which those fashion jewelry brand products could be sold online by the potential business partner as a new sales channel of the Group.

Solar Energy Business

It is stated in the "13th Five-Year Plan for Energy Development" formulated by China that the nationwide target on installed capacity of solar power generation shall surpass 110 million kilowatts by 2020. Both the central and local governments had formulated various supportive policies, including, among others, tax incentives and subsidies, to facilitate the steady growth in the solar energy industry.

The Group principally engages in the solar energy business, including provision of patented thermal solar energy collectors for solar energy saving and environmental protection solutions as well as research and development and sale of products of the solar photovoltaic systems. For the Current Period, segment revenue from the solar energy business of the Group increased significantly to approximately HK$11.7 million from HK$0.4 million for the Previous Period. Such increase in segment revenue was mainly attributable to the revenue contributed by the completion of sale of photovoltaic component systems and production and sale of patented cooling-stored pipes thermal collector products during the Current Period. The Group has been proactively developing its solar energy business in the past years. We first obtained a 15-year patent on thermal solar energy collector proprietary technology granted by a Swedish leading energy saving technology research and development company in 2015, through which the Group entered into the solar energy market, then during the Current Period, we further partnered with a global new energy system integration provider to provide photovoltaic component systems to their projects home and abroad. With such partnership, we may enhance our intrinsic advantages and expand into overseas markets.

During the Current Period, the Group's solar energy team continued to expand and actively participated in a number of exhibitions at home and abroad to pursue opportunities to co-operate with players in the solar energy industry from different regions, with an aim to enhance the Group's market position and establish a sale network. As such, through co-operation, the Group and the business partners leverage on each other's strengths and resources to jointly develop overseas markets, and to diversify the customer base and product portfolio of the solar energy business. As of the date of this report, the Group has completed the sale of 100 sets of patented thermal collectors and commenced the production of 1,000 sets of patented thermal collectors order received during the Current Period. Meanwhile, the Group has entered into contracts of photovoltaic components sales with new customers during the Current Period. Such sales have already commenced and is expected to complete within the year.

Acquisition of Yuyao Land Parcel and Yuyao Factory

After obtaining the licence to use the patent, in December 2015, the Company, Ningbo Shenggu Energy Reservation Technology Co., Ltd.* (寧波升谷節能科技有限公司) ("Ningbo Shenggu"), a wholly-owned subsidiary of the Company, and CECEP (Yuyao) Low Carbon Technology Development Co., Ltd.* (中節能(余姚)低碳技術開發有限公司) ("CECEP Yuyao") entered into a framework tenancy agreement (the "Framework Tenancy Agreement"), pursuant to which CECEP Yuyao was responsible for constructing a factory (the "Yuyao Factory") according to the Company's requirements on a parcel of land held by CECEP Yuyao of a site area of approximately 49,000 square metres located on the north side of Binhai Avenue, the Binhai New Area, Yuyao, Zhejiang Province, the PRC ("the Yuyao Land Parcel"), and lease the same to the Group.

To enable the Group to cope with its future development while at the same time saving rental costs of the factory in the long run, on 13 November 2017, the Company, Ningbo Shenggu and CECEP Yuyao entered into a memorandum of understanding (the "MOU") in relation to the proposed acquisition of the Yuyao Land Parcel and the Yuyao Factory. The MOU also granted exclusive rights to the Group to use the Yuyao Factory free-of-charge. The gross floor area of the Yuyao Factory is approximately 27,500 square metres. For the MOU, the Group has also agreed to use the paid deposit amounting to approximately RMB3.8 million pursuant to the Framework Tenancy Agreement entered into with CECEP Yuyao on 18 December 2015 as the refundable deposit (the "Security Deposit") for ensuring the Group in compliance with the terms and reserving as compensation for any damages on the facilities and equipment when using the Yuyao Factory free-of-charge. Please refer to the announcement of the Company dated 13 November 2017 for details.

On 24 April 2018, the Company, Ningbo Shenggu and CECEP Yuyao entered into a conditional sale and purchase agreement (the "SPA"), pursuant to which Ningbo Shenggu has conditionally agreed to purchase by itself or any wholly-owned subsidiary of the Company established in the PRC, and CECEP Yuyao has conditionally agreed to sell the Yuyao Land Parcel and the Yuyao Factory, at an aggregate consideration of RMB59.2 million, subject to adjustment. Further, pursuant to the SPA, the outstanding consideration payable after the completion shall be set off against the Security Deposit. Mr. Li Wei Qi, Jacky, a non-executive Director, is also one of the directors of CECEP Yuyao. As Mr. Hu Yishi, the Company's controlling shareholder, is the indirect beneficial owner of approximately 34.5% in the registered capital of CECEP Yuyao, the acquisition of the Yuyao Land Parcel and the Yuyao Factory constitutes a connected transaction for the Company pursuant to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). The acquisition of the Yuyao Land Parcel and the Yuyao Factory is subject to the reporting, announcement and the Company's independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Please refer to the announcement of the Company dated 24 April 2018, 28 September 2018 and 4 October 2018 and the circular dated 24 August 2018 for details. The SPA and the transactions contemplated thereunder have been approved at the extraordinary general meeting held on 20 September 2018, please refer to the announcement of the Company dated 20 September 2018. As at the date of this report, having considered that the Company, Ningbo Shenggu and CECEP Yuyao have used their best endeavours to complete the SPA and the current progress informed by CECEP Yuyao, the Directors are of the view that the SPA is expected to be completed on or before 30 November 2018. Relevant announcement will be published accordingly.

OUTLOOK AND PROSPECTS

Jewelry business

Looking ahead, the Group will continue to develop its jewelry business both in Hong Kong and the PRC with more resources to be allocated to sales and marketing of jewelry business, so as to develop more flexible and successful sales strategies, further enhance its customer services and capture more opportunities for business co-operation through participation in jewelry trade fairs and exhibitions in various regions. Also, the Group believes that the potential e-commerce shall enhance our sales channels, raising the Group's profile and strengthening the sustainable development of its jewelry business in a long run.

Solar Energy Business

During the year, the Group will launch various pilot projects of solar cooling proprietary technology products and solutions, including the pilot project at the high-end hotel Naked Retreats in Mount Mogan, Zhejiang Province, which is expected to complete within this year. Further, the Group will continue its co-operation with business partners to enhance the sale of products such as the components of solar photovoltaic component systems, and to materialise the product and solution diversification of solar energy business.

The Group will continue to allocate more resources for the development of its solar energy business, including strengthen the research and development and innovation with an aim of achieving self-owned intellectual property rights and enhancing the Company's core competitiveness. We will also participate in more trade fairs and exhibitions in different regions, proactively establish a global sale network, purchase new production facilities and recruit additional research and development, sales, procurement and production staff. The Group is currently under negotiation with its business partners in respect of the grant of patented technologies with an aim of materialising diversification of product portfolios. As one of the most important renewable energy sources, solar energy sees a great development potential in the future once it has been widely adopted, and the Group remains optimistic towards the prospect of its solar energy business.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the Current Period was HK$35.6 million (2017: HK$10.4 million), representing an increase of approximately 242.1% as compared to that for the Previous Period. The increase was due to an increase in the revenue of both jewelry business and solar energy business.

Revenue of the jewelry business increased by approximately 138.6% from approximately HK$10.0 million for the Previous Period to approximately HK$23.9 million for the Current Period due to the steady growth of the PRC's domestic consumption and spending and strengthened business relationships with customers in Hong Kong.

Revenue of the solar energy business increased by approximately 28.2 times from approximately HK$0.4 million for the Previous Period to approximately HK$11.7 million for the Current Period due to the contribution of revenue derived from the sales of integrated heating and cooling products using thermal solar collectors and solar photovoltaic components.

Gross profit

Gross profit increased from approximately HK$0.4 million for the Previous Period to approximately HK$1.5 million for the Current Period, representing an increase of approximately 247.4%. Meanwhile, gross profit margin increased from 4.0% for the Previous Period to 4.1% for the Current Period, which was mainly resulted from the improving market atmosphere of jewelry business between the periods.

Other income

Other income increased from approximately HK$461,000 for the Previous Period to approximately HK$485,000 for the Current Period, representing an increase of approximately 5.2%, which was mainly attributable to the interest income received from bank structured deposits matured during April 2018 while nil in the Previous Period.

Other gains and losses, net

The Group recorded other net gain of approximately HK$0.6 million for the Current Period (2017: other net loss of approximately HK$0.6 million), which was mainly attributable to the net foreign exchange gain during the Current Period.

Selling and distribution costs and Administrative expenses

Selling and distribution costs and administrative expenses decreased from approximately HK$10.2 million for the Previous Period to approximately HK$10.1 million for the Current Period, representing a decrease of approximately 1.3%. It was the net result of decrease in general administrative expenses of the head office, decrease in directors' remuneration because of the resignation of directors between the periods and the increase in sales staff cost. The Group will continue to take all necessary measures to control the cost to improve profitability in the future.

Equity-settled share-based payment

Equity-settled share-based payment increased by 136.6% from approximately HK$1.9 million for the Previous Period to approximately HK$4.6 million for the Current Period mainly due to the share options granted by the Company pursuant to the share options scheme adopted on 9 September 2016 during the Current Period.

Finance cost

Finance cost represented the imputed interest derived from the long term loans from a controlling shareholder amounting to HK$357,000 for the Current Period (2017: Nil).

Non-controlling Interests

Non-controlling interests recorded a loss of HK$265,000 for the Current Period (2017: Nil). This was mainly attributable to the set up cost incurred by newly established non-wholly owned subsidiaries in the PRC.

Loss and Total Comprehensive expense attributable to the Owners of the Company

As a result of the foregoing, loss and total comprehensive expense attributable to the owners of the Company for the Current Period increased from approximately HK$11.9 million for the Previous Period to approximately HK$12.8 million for the Current Period, representing an increase of approximately 7.2%. Basic loss per share were 3.9 HK cents (2017: 3.6 HK cents).

Liquidity, Financial Resources and Capital Structure

As at 30 September 2018, the Group had net current assets and current ratio stood at HK$9.6 million and 1.1 respectively (31 March 2018: HK$13.2 million and 1.2 respectively). The Group's gearing ratio as at 30 September 2018 was nil (31 March 2017: Nil) (total interest bearing borrowings divided by bank balance and cash as a percentage of total equity).

As at 30 September 2018, the inventories amounted to HK$1.0 million (31 March 2018: HK$1.2 million), mainly representing the goods-in-transit of solar cooling-stored pipes of the Group's solar energy business. As at 30 September 2018, the net trade receivable and trade payable amounted to HK$15.5 million and HK$9.7 million respectively (31 March 2018: HK$2.2 million and HK$2.1 million respectively), both of which were derived from both jewelry business and solar energy business. As at 30 September 2018, the bank balances and cash amounted to HK$50.6 million (31 March 2018: HK$58.2 million).

As at 30 September 2018, the Group had no structured deposits (31 March 2018: HK$21.2 million). The Group entered structured deposits with commercial banks in the PRC as part of the Group's treasury activities to maximise the use of its funds. The structured deposits entered were principal-protected products with a relatively short term of maturity which were considered to be akin to placing deposits with banks whilst enabling the Group to earn a relatively higher rate of return. For details regarding the subscriptions of structured deposits, please refer to the announcement and the circular of the Company dated 12 June 2018 and 16 July 2018 respectively.

As at 30 September 2018 and 31 March 2018, the Group had no bank borrowings. As at 30 September 2018 and 31 March 2018, the Group had no banking facilities and none of the Group's assets were pledged to banks to secure any banking facilities. The Group financed its liquidity operations requirements through cash flow generated from operations, short term and long term loans from a controlling shareholder and proceeds from the issue of new shares in year 2015.

Use of Proceeds from the Subscriptions

On 1 July 2015, the Group entered into a subscription agreement (the "Suncool Subscriptions") with Suncool AB, a Swedish company, to allot and issue 6,000,000 new shares of the Company to Suncool AB at the subscription price of HK$2.10 per share. Warrants were also granted to Suncool AB for subscribing to an aggregate of 24,000,000 new shares of the Company at the exercise price of HK$2.50 per warrant share (the "Warrants"). The Group also signed subscription agreements ("Investors Subscriptions", together with the Suncool Subscriptions, the "Subscriptions") with six independent investors to allot and issue an aggregate of 36,000,000 new shares of the Company to the six independent investors at the subscription price of HK$2.10 per share. As at 2 November 2015, the Group had completed the Subscriptions for a total of 36,000,000 shares, which generated total gross proceeds of approximately HK$75.6 million and net proceeds (which represent the total gross proceeds less relevant expenses, the "Net Proceeds") of approximately HK$74.7 million after deducting related expenses payable by the Company. For details regarding the Subscriptions, please refer to the Company's announcement dated 5 July 2015 and the circular dated 13 August 2015.

As disclosed in the announcements dated 12 September 2016, the Group was informed by CECEP Yuyao that the construction of the Yuyao Factory has been delayed and therefore the development of solar energy business of the Group is prolonged. Accordingly, the Group considered that the upfront expenses including factory rent, leasehold improvement and other related general operating expenses were not significant as expected because of the delay in the occupation of the Yuyao Factory, hence the use of proceeds has been changed and part of the proceeds intended to be used for the development of solar energy business in the amount of approximately HK$10 million has been allocated towards the general working capital of the Group.

In the circumstances, the details of the original allocation of the Net Proceeds, the revised allocation of the Net Proceeds, and the utilization of the Net Proceeds as at 30 September 2018 are as below:

Proposed use of Net Proceeds	**Original allocation** *(Approximately)* HK$'000	**Revised allocation** *(Approximately)* HK$'000	**Utilisation as at 30 September 2018** *(Approximately)* HK$'000	**Remaining balance after revised allocation** *(Approximately)* HK$'000
Repayment of shareholder's loan	7,600	7,600	7,600	–
Development of solar energy business	50,000	40,000	32,400 *(Note 1)*	7,600 *(Note 3)*
General working capital	17,100	27,100	27,100 *(Note 2)*	–
	74,700	74,700	67,100	7,600

Note 1: As at 30 September 2018, approximately HK$32.4 million was used for the development of solar energy business, including approximately HK$4.7 million as the Security Deposit, approximately HK$11.4 million as prepayment for acquiring the Yuyao Land Parcel and the Yuyao Factory, approximately HK$1.3 million for acquiring other fixed assets including machineries, equipment and tools used in production, approximately HK$4.0 million for staff training costs, technical knowledge transfer and supporting service fees paid to Suncool AB, approximately HK$0.4 million for research and development activities and approximately HK$10.6 million for working capital of solar energy business including staff cost of HK$4.5 million.

Note 2: As at 30 September 2018, approximately HK$27.1 million was used as the general working capital of the existing businesses of the Group, including staff costs, office rent, legal and professional expenses and other recurring operating expenses.

Note 3: In respect of the remaining unutilized proceeds, the Company intends to apply approximately HK$7.6 million for developing the solar energy business. The Company targets to use approximately HK$4.9 million towards acquiring fixed assets. Approximately HK$1.3 million will be used for staff training costs, technical knowledge transfer and supporting service fees. Approximately HK$1.4 million will be used for supporting the research and development activities with a focus on the solar energy techniques to continuously strengthen the Company's products.

As at 30 September 2018, all Warrants had expired and none of the Warrants had been exercised. Since the general working capital requirement of the Group is currently financing by the operations and shareholder's loan, the Director will proactively monitor the needs of working capital and will introduce suitable measures to raise funds to replenish the general working capital as and when appropriate. For the avoidance of doubt, no specific plans have been determined at this stage.

Charges on Group Assets

As at 30 September 2018 and 31 March 2018, the Group did not have any charges on the Group's assets.

Commitments and Contingent Liabilities

As at 30 September 2018, the Group had HK$6.7 million of operating lease commitments (31 March 2018: HK$7.6 million). As at 30 September 2018, the capital commitments of the Group are related to the Acquisition of the Yuyao Land Parcel and the Yuyao Factory of approximately HK$51.6 million (31 March 2018: Nil).

As at 30 September 2018, the Group did not have any significant contingent liabilities (31 March 2018: Nil).

Human Resources

As at 30 September 2018, the Group had a total of approximately 44 employees (31 March 2018: 34). The Group remunerates its employees based on their performance and work experience and prevailing market rates. Salaries of employees are maintained at competitive levels while bonuses are granted by reference to the performance of the Group and individual employees.

The Group also provides internal training to employees when necessary and other staff benefits including share option scheme and corporate contribution to the statutory mandatory provident fund scheme for employees in Hong Kong and the statutory central pension schemes for employees in the PRC.

Foreign Exchange Fluctuation and Hedges

The business operations of the Group's subsidiaries were conducted mainly in the PRC with sales and purchase of the Group's subsidiaries denominated mainly in Renminbi. The Group's cash and bank deposits were denominated some in Hong Kong dollars, with some denominated in Renminbi. Any significant exchange rate fluctuation of Hong Kong dollars against Renminbi may have a financial impact on the Group. While the Group would closely monitor the volatility of the Renminbi exchange rate, the Directors considered that the Group's current risk exposure to foreign exchange rate fluctuation remained minimal currently.

As at 30 September 2018 and 31 March 2018, no forward foreign currency contracts are designated in hedging accounting relationships.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

Save as disclosed in the section headed "Business Review" in relation to the Acquisition of the Yuyao Land Parcel and the Yuyao Factory, there had been no significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures during the Current Period.

Future Plans for Material Investments or Capital Assets

Save as disclosed in this report, the Group did not have other plans for material investments and capital assets.

Events after the Reporting Period

On 19 October 2018, the Group granted a total of 32,520,000 share options to subscribe for up to a total of 32,520,000 ordinary shares of the Company to directors of the Company and employees and consultants of the Group.

Save as disclosed above and in the section headed "Business Review" in relation to the Acquisition of Yuyao Land Parcel and Yuyao Factory, the Group had no material event after 30 September 2018.

Dividend

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 September 2018 (2017: Nil).

Non-Compliance with Rules 3.10(1) and 3.21 of the Listing Rules

Pursuant to Rule 3.10(1) and Rule 3.21 of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors and the audit committee must comprise a minimum of three members. Following the retirement of Ms. Kwok Pui Ha as an independent non-executive Director and a member of the audit committee of the Company (the "Audit Committee") with effect from 6 September 2018, the number of independent non-executive Directors fell below the minimum number of three as required under Rule 3.10(1) of the Listing Rules, and the number of members of the audit committee of the Company fell below the minimum number prescribed under Rule 3.21 of the Listing Rules. As Ms. Sun, Ivy Connie was subsequently appointed as an independent non-executive Director, as well as, among others, a member of the Audit Committee, on 23 November 2018, the Company has three independent non-executive Directors and three audit committee members. As a result, the composition of the Board and the Audit Committee meet with the requirements under Rules 3.10(1) and 3.21 of the Listing Rules respectively.

Update on Directors' Information under Rule 13.51B(1) of the Listing Rules

Upon specific enquiry by the Company and confirmations from the Directors, the changes in the information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the Company's last published annual reports are set out below:

Ms. Kwok Pui Ha retired as an independent non-executive director of the Company at the annual general meeting of the Company held on 6 September 2018 (the "AGM") and, as such, ceased to be a member of each of the Audit Committee and the nomination committee of the Company (the "Nomination Committee") with effect from the conclusion of the AGM. Please refer to the announcement of the Company dated 6 September 2018.

Mr. Wu Chi Keung, an independent non-executive Director, resigned as an independent non-executive director of Yuan Sheng Tai Dairy Farm Limited (Stock Code: 1431, which shares are listed on the Stock Exchange) with effect from 28 September 2018.

Ms. Sun, Ivy Connie was appointed as independent non-executive Director and members of each of the Audit Committee and the Nomination Committee with effect from 23 November 2018. Please refer to the announcement of the Company dated 23 November 2018.

Related Party Transactions and Connected Transactions

During the Current Period, the Company and the Group had connected transactions, details are set out in the sections headed "Acquisition of Yuyao Land Parcel and Yuyao Factory" of Management Discussion and Analysis in this report. Details of the related party transactions of the Group for the Current Period are set out in note 17 to the consolidated financial statements.

Save as disclosed above, no transaction during the Current Period constituted connected transactions or continuing connected transactions as defined in the Listing Rules, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Share Option Scheme

The Company adopted a share option scheme at the annual general meeting of the Company held on 9 September 2016 (the "2016 Scheme"). The purpose of the 2016 Scheme is to facilitate the retention and the recruitment of high-calibre staff of the Group and/or any entities in which the Group holds any equity interests (if applicable) and attract resources that are valuable to the Group or those invested entities and benefit to the Company's future business development.

The participants of the 2016 Scheme include any employee (whether full-time or part time including any executive Director), officer (including any non-executive Director and independent non-executive Director) and substantial shareholder, consultant, agent, adviser, customer, business partner, joint venture partner, strategic partner, landlord or tenant of, or any supplier or provider of goods or services to, any member of or any invested entity of the Group, or any trustee(s) of a discretionary trust of which one or more beneficiaries belong to any of the above mentioned category(ies) of persons, or any other person who the Board considers, in its sole discretion, has contributed or will contribute to the Group.

The maximum number of shares of the Company in respect of which options may be granted and yet to be exercised under the 2016 Scheme, when aggregated with any other share option scheme of the Company, shall not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares which may be issued upon exercise of all options to be granted under the 2016 Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the shares in issue as at the date of approval of the 2016 Scheme. The 10% limit may be refreshed at any time by approval of the Company's shareholders provided that the total number of shares which may be issued upon exercise of all options to be granted under all of the schemes of the Company under the limit as "refreshed" must not exceed 10% of the shares in issue as at the date of approval of the limit.

The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised and unexercised options) under the 2016 Scheme and any other share option scheme (if any) adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue unless otherwise approved by the Company's shareholders. Where any grant of options to a substantial shareholder, an independent non-executive Director, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholder or an independent non-executive Director or a company beneficially owned by any substantial shareholder or independent non-executive Director of the Company) would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such person in any 12-month period up to and including the date of the grant:

(i) representing in aggregate over 0.1% of the total number of shares of the Company in issue; and

(ii) having an aggregate value, based on the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK$5 million, such grant of option shall be subject to prior approval of the shareholders of the Company who are not a grantee, his associates, or a core connected person of the Company as defined in the Listing Rules.

Options granted must be taken up within 28 days from the date of offer, upon payment of HK$10 by way of consideration for the grant. Subject to terms and conditions upon which the option was granted, options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the Directors, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share. The 2016 Scheme has a life of 10 years and will expire on 8 September 2026.

In accordance with the resolution passed at the Annual General Meeting on 6 September 2018, the limit on the grant of options under the 2016 Scheme has been refreshed to up to 33,005,400 Shares, being 10% of the Shares in issue as at the date of Annual General Meeting based on 3,300,540,000 Shares in issue (excluding share options previously granted, outstanding, cancelled, lapsed or exercised under the 2016 Scheme) (the "Refreshed Scheme Limit"); and the Directors are authorised, at their absolute discretion, to grant share options to subscribe for Shares within the Refreshed Scheme Limit in accordance with the rules of the 2016 Scheme; to allot, issue and deal with the Shares pursuant to the exercise of share options granted under the 2016 Scheme within the Refreshed Scheme Limit; and to do such acts and execute such documents for or incidental to implement the 2016 Scheme within the Refreshed Scheme Limit.

During the year ended 31 March 2018, the Company has granted 16,000,000 share options to the employees and consultants of the Company at the exercise price of HK$1.148 per option. As at 30 September 2018, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 16,000,000 (30 September 2017: Nil), representing 4.8% (30 September 2017: Not applicable) of the shares of the Company in issue at that date.

Details of the movements of share options granted, exercised or cancelled/lapsed during the Current Period and outstanding as at 30 September 2018 are as follows:

Category of eligible participants	Number of share options					Date of grant[1]	Exercisable period (both dates inclusive)	Exercise price per share
	At 1 April 2018	Granted during the Period	Exercised during the Period	Cancelled/ Lapsed during the Period	At 30 September 2018			
Employees								
in aggregate	–	1,800,000	–	–	1,800,000	9 March 2018	1 July 2018 to 8 March 2028	1.148[2]
	–	3,600,000	–	–	3,600,000	9 March 2018	1 January 2019 to 8 March 2028	1.148[2]
	–	3,600,000	–	–	3,600,000	9 March 2018	1 July 2019 to 8 March 2028	1.148[2]
	-	**9,000,000**	**-**	**-**	**9,000,000**			
Consultants								
in aggregate	–	1,400,000	–	–	1,400,000	9 March 2018	1 July 2018 to 8 March 2028	1.148[2]
	–	2,800,000	–	–	2,800,000	9 March 2018	1 January 2019 to 8 March 2028	1.148[2]
	–	2,800,000	–	–	2,800,000	9 March 2018	1 July 2019 to 8 March 2028	1.148[2]
	-	**7,000,000**	**-**	**-**	**7,000,000**			
Total all categories	**-**	**16,000,000**	**-**	**-**	**16,000,000**			

Notes:

(1) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(2) The weighted average closing price of the Company's shares immediately before the grant dates of the share options was HK$1.148 per share. The closing price of the Company's shares immediately before the date on which the options were granted was HK$1.14 per share.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 September 2018, the interests and short positions of the Directors and their associates in the ordinary shares (the "Share(s)"), underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long Positions

Ordinary Shares of HK$0.01 each

Name of Director	Capacity	Number of issued ordinary Shares held (Including underlying shares)	Percentage of the issued ordinary share capital of the Company
Mr. Hu Yangjun	*(Note 1)*	207,454,000	62.85%
Mr. Wu Hao		2,736,000	0.83%
Mr. Li Wei Qi, Jacky		2,736,000	0.83%

Notes:

(1) Mr. Hu Yangjun had a direct interest of 2,736,000 Shares and a deemed interest of 204,718,000 Shares held by Resources Rich Capital Limited ("Resources Rich"), a company 50% owned by Mr. Hu Yangjun, within the meaning of Part XV of the SFO.

Save as disclosed above, as at 30 September 2018, no interest and short position in the Shares, underlying Shares or debentures were held or deemed or taken to be held under Part XV of the SFO by any Director or chief executives of the Company or any of their respective associates which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein.

Substantial Shareholders

As at 30 September 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of Directors and their associates, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long Positions

Ordinary Shares of HK$0.01 each

Name of Shareholder	Capacity	Number of issued ordinary Shares held	Percentage of the issued ordinary share capital of the Company
Resources Rich	*(Note 1)*	204,718,000	62.03%
Mr. Hu Yangjun	*(Note 2)*	207,454,000	62.85%
Mr. Hu Yishi	*(Note 3)*	207,454,000	62.85%
Ms. Zhang Qi	*(Note 4)*	207,454,000	62.85%
Ms. Lin Min, Mindy	*(Note 5)*	207,454,000	62.85%
Suncool AB	*(Note 6)*	30,000,000	9.09%
Stiftelsen Industrifonden	*(Note 7)*	30,000,000	9.09%

Notes:

(1) 50% of the entire issued share capital of Resources Rich is owned by Mr. Hu Yangjun while the other 50% is owned by Mr. Hu Yishi. Mr. Hu Yangjun and Mr. Hu Yishi are deemed to be interested in all the Shares in which Resources Rich is interested by virtue of the SFO.

(2) Mr. Hu Yangjun had a direct interest of 2,736,000 Shares and a deemed interest of 204,718,000 Shares held by Resources Rich, a company 50% owned by Mr. Hu Yangjun, within the meaning of Part XV of the SFO.

(3) Mr. Hu Yishi had a direct interest of 2,736,000 Shares and a deemed interest of 204,718,000 Shares held by Resources Rich, a company 50% owned by Mr. Hu Yishi, within the meaning of Part XV of the SFO.

(4) Ms. Zhang Qi is the spouse of Mr. Hu Yangjun. Accordingly, she is deemed to be interested in the 207,454,000 Shares which Mr. Hu Yangjun is interested in pursuant to the SFO.

(5) Ms. Lin Min, Mindy is the spouse of Mr. Hu Yishi. Accordingly, she is deemed to be interested in the 207,454,000 Shares which Mr. Hu Yishi is interested in pursuant to the SFO.

(6) According to the disclosure of interest notices filed by Suncool AB, Suncool AB had a direct interest of 30,000,000 Shares and 24,000,000 Shares of which represent the warrants granted by the Company to subscribe for 24,000,000 Shares at subscription price of HK$2.5 per Share.

(7) According to the disclosure of interest notices filed by Stiftelsen Industrifonden, Stiftelsen Industrifonden owned 47% shareholding interest in Suncool AB. Stiftelsen Industrifonden was deemed to be interested in 30,000,000 Shares held by Suncool AB pursuant to the SFO and 24,000,000 Shares of which represent the warrants granted to Suncool AB by the Company to subscribe for 24,000,000 Shares at subscription price of HK$2.5 per Share.

Save as disclosed above, as at 30 September 2018, there were no other parties, had interests or short positions in the Shares or underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

Corporate Governance Practices

The Board and the management of the Company are committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize effective internal control, accountability and transparency of the Board and are adopted in the best interest of the Company and its shareholders.

Accordingly, the Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules.

The Company has applied the principles and complied with all the applicable code provisions set out in the CG Code throughout the six months ended 30 September 2018 except for the deviation from code provision A.5.1, A.6.7 and E.1.2 as explained below.

Code provision A.5.1

Under code provision A.5.1, the number of independent non-executive Directors shall represent the majority of the nomination committee. During the period between 6 September 2018 and 23 November 2018, due to the retirement of an independent non-executive Director, namely Ms. Kwok Pui Ha, who was also then a member of the Nomination Committee, with effect on 6 September 2018, the Nomination Committee then only consisted of one executive Director and one independent non-executive Director. As Ms. Sun, Ivy Connie was subsequently appointed as an independent non-executive Director, as well as, among others, a member of the Nomination Committee, on 23 November 2018 in order to replace the vacancy, such deviation from CG Code provision A.5.1 was rectified.

The Group also has an internal control system to perform the checks and balance function. There were also two independent non-executive Directors offering strong, independent and differing perspectives. The Board is therefore of the view that there are adequate balance-of-power and safeguards in place to enable the Company to make and implement decisions promptly and effectively.

Code provision A.6.7

Under code provision A.6.7, independent non-executive Directors and non-executive Director should attend general meetings and develop a balanced understanding of the views of shareholders of the Company. Mr. Jin Qingjun, an independent non-executive Director, was unable to attend both the AGM and the extraordinary general meeting of the Company held on 20 September 2018 (the "EGM") due to other work commitments, and Mr. Li Wei Qi, Jacky, a non-executive Director, was unable to attend the EGM due to sickness.

Code Provisions E.1.2

Under code provision E.1.2, the chairman of the board should attend the annual general meeting. Due to other urgent business commitment which, Mr. Wu Hao, chairman of the Board, must attend, Mr. Wu was not present at both the AGM and EGM. Both meetings were chaired by Mr. Chan Wing Yuen, Hubert, an executive Director and the chief executive officer of the Company, to ensure effective communication with the shareholders thereat.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2018.

Review by Audit Committee and Independent External Auditor

The Company has established the Audit Committee with written terms of reference in compliance with the code provisions under the Code set out in Appendix 14 to the Listing Rules. As at the date of this report, the Audit Committee comprises three independent non-executive Directors. The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management about the internal control and financial reporting matters, including the review of the unaudited interim results for the six months ended 30 September 2018. The Group's external auditor, Deloitte Touche Tohmatsu, has been appointed to review the interim financial information. On the basis of their review, they are not aware of any material modifications that should be made to the interim financial information for the six months ended 30 September 2018.

Purchase, Sale or Redemption of the Company's Listed Shares

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed Shares during the six months ended 30 September 2018.

On behalf of the Board

Wu Hao
Chairman and Executive Director

Hong Kong, 28 November 2018

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF ZHONG FA ZHAN HOLDINGS LIMITED
(Incorporated in Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Zhong Fa Zhan Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 44, which comprise the condensed consolidated statement of financial position as of 30 September 2018 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 November 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	NOTES	Six months ended 30 September 2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Revenue from goods	3	**35,613**	10,409
Cost of sales		**(34,154)**	(9,989)
Gross profit		**1,459**	420
Other income		**485**	461
Other gains and losses, net	5	**634**	(621)
Selling and distribution costs		**(468)**	(135)
Administrative expenses		**(9,639)**	(10,101)
Impairment loss recognised on trade receivables	10	**(561)**	–
Equity-settled share-based payment	14	**(4,601)**	(1,945)
Finance costs	12	**(357)**	–
Loss before taxation		**(13,048)**	(11,921)
Income tax	6	**–**	–
Loss for the period	7	**(13,048)**	(11,921)
Other comprehensive (expense) income for the period			
Item that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**(2,621)**	1,357
Total comprehensive expense for the period		**(15,669)**	(10,564)
Loss for the period attributable to:			
– Owners of the Company		**(12,783)**	(11,921)
– Non-controlling interests		**(265)**	–
		(13,048)	(11,921)
Total comprehensive expense attributable to:			
– Owners of the Company		**(15,413)**	(10,564)
– Non-controlling interests		**(256)**	–
		(15,669)	(10,564)
Loss per share	8		
Basic and diluted (HK cents)		**(3.87)**	(3.61)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2018

	NOTES	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**11,506**	13,540
Deposits paid for acquisition of property, plant and equipment	10	**11,364**	–
Rental deposits		**237**	237
		23,107	13,777
Current assets			
Inventories		**1,008**	1,158
Trade receivables	10	**15,513**	2,229
Other receivables, deposits and prepayments	10	**10,139**	6,885
Structured deposits		**–**	21,217
Bank balances and cash		**50,587**	58,211
		77,247	89,700
Current liabilities			
Trade payables	11	**9,658**	2,139
Other payables and accruals	11	**3,981**	2,889
Loans from a controlling shareholder	12	**54,026**	71,518
		67,665	76,546
Net current assets		**9,582**	13,154
Total assets less current liabilities		**32,689**	26,931
Non-current liabilities			
Loans from a controlling shareholder	12	**15,172**	–
		17,517	26,931
Capital and reserves			
Share capital	13	**3,301**	3,301
Reserves		**14,472**	23,630
Equity attributable to owners of the Company		**17,773**	26,931
Non-controlling interests		**(256)**	–
		17,517	26,931

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Warrant reserve HK$'000	Shareholder's contribution HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 April 2018 (audited)	3,301	151,578	820	23,111	–	7,759	(159,638)	26,931	–	26,931
Loss for the period	–	–	–	–	–	–	(12,783)	(12,783)	(265)	(13,048)
Other comprehensive (expense) income for the period	–	–	–	–	–	(2,630)	–	(2,630)	9	(2,621)
Total comprehensive expense for the period	–	–	–	–	–	(2,630)	(12,783)	(15,413)	(256)	(15,669)
Deemed capital contribution from a controlling shareholder *(Note 12)*	–	–	–	–	1,654	–	–	1,654	–	1,654
Recognition of equity-settled share-based payment	–	–	4,601	–	–	–	–	4,601	–	4,601
Lapse of warrants	–	–	–	(23,111)	–	–	23,111	–	–	–
Forfeiture of share options	–	–	(281)	–	–	–	281	–	–	–
At 30 September 2018 (unaudited)	3,301	151,578	5,140	–	1,654	5,129	(149,029)	17,773	(256)	17,517
At 1 April 2017 (audited)	3,301	151,578	–	21,155	–	4,635	(136,539)	44,130	–	44,130
Loss for the period	–	–	–	–	–	–	(11,921)	(11,921)	–	(11,921)
Other comprehensive income for the period	–	–	–	–	–	1,357	–	1,357	–	1,357
Total comprehensive income (expense) for the period	–	–	–	–	–	1,357	(11,921)	(10,564)	–	(10,564)
Recognition of equity-settled share-based payment	–	–	–	1,945	–	–	–	1,945	–	1,945
At 30 September 2017 (unaudited)	3,301	151,578	–	23,100	–	5,992	(148,460)	35,511	–	35,511

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2018

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Loss before taxation	**(13,048)**	(11,921)
Adjustments for:		
Depreciation	**1,069**	314
Loss on disposal of property, plant and equipment	**–**	63
Equity-settled share-based payment	**4,601**	1,945
Interest income	**(483)**	(287)
Finance costs	**357**	–
Impairment loss recognised on trade receivables	**561**	–
Operating cash flows before movements in working capital	**(6,943)**	(9,886)
Other working capital items	**(9,273)**	(2,316)
Net cash used in operating activities	**(16,216)**	(12,202)
Net cash from (used in) investing activities		
Interest received	**483**	287
Purchases of property, plant and equipment	**(194)**	(4,864)
Deposits paid for acquisition of property, plant and equipment	**(11,912)**	(3,370)
Withdrawal of structured deposits	**20,251**	–
	8,628	(7,947)
Net cash from financing activities		
Advances from a controlling shareholder	**16,912**	62,926
Repayment to a controlling shareholder	**(11,912)**	–
	5,000	62,926
Net (decrease) increase in cash and cash equivalents	**(2,588)**	42,777
Cash and cash equivalents at beginning of the period	**58,211**	38,515
Effect of foreign exchange rate changes	**(5,036)**	2,624
Cash and cash equivalents at end of the period	**50,587**	83,916

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than change in accounting policies resulting from application of new and amendments and interpretation to Hong Kong Financial Reporting Standard ("HKFRS"), the accounting policies and methods of computation used in the preparation of condensed consolidated financial statements for the six months ended 30 September 2018 are the same as those applied in the preparation of the Group's annual financial statements for year ended 31 March 2018.

Application of new and amendments and interpretation of HKFRSs

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

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

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which result in changes in accounting policies, amounts reported and/or disclosures as described below.

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

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

The Group recognises revenue from the wholesale of jewelry products and manufacturing and trading of solar energy products.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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. Furthermore, in accordance with the transition provision in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed as at 1 April 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

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

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

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

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

A performance obligation represents a good and 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 good or service.

The Group's revenue from sales of goods (i.e. jewelry products and solar energy products) is recognised at a point in time when goods are delivered at which time control of such goods has been passed to customers.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

2.2 Impacts and changes in accounting policies of application on HKFRS 9 “Financial Instruments”

During the six months ended 30 September 2018, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. (i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018). The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

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

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

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

Classification and measurement of financial assets (Continued)

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

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 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivable and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

Impairment under ECL model (Continued)

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

Impairment under ECL model (Continued)

Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 April 2018, the directors of the Company reviewed and assessed the Group's existing financial assets measured at amortised cost for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9, and concluded that no expected credit loss allowance are recognised by the Group as at 1 April 2018 as the amount is not material.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

2.2.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets under HKFRS 9 at the date of initial application, 1 April 2018:

	Structured deposits classified as loans and receivables at amortised cost *HK$'000*	**Financial assets at FVTPL required by HKFRS 9** *HK$'000*
Closing balance as at 31 March 2018		
– HKAS 39	21,217	–
Effects arising from initial application of HKFRS 9		
Reclassification:		
From loans and receivables	(21,217)	21,217
Opening balance as at 1 April 2018 – HKFRS 9	–	21,217

The balance of structured deposits previously classified as loans and receivables was reclassified to FVTPL upon the application of HKFRS 9 because the cash flows do not represent solely payment of principal and interest on the principal amount outstanding.

The restated fair value change to be adjusted to financial assets at FVTPL and accumulated losses is insignificant.

3. REVENUE FROM GOODS

Disaggregation of revenue

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Types of goods		
Sales of jewelry products	**23,877**	10,007
Sales of solar energy products	**11,736**	402
Total	**35,613**	10,409

4. SEGMENT INFORMATION

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segment:

For six months period ended 30 September 2018 (unaudited)

	Jewelry wholesale business HK$'000	**Solar energy business HK$'000**	**Total HK$'000**
Revenue	**23,877**	**11,736**	**35,613**
Segment loss	**(4,539)**	**(4,869)**	**(9,408)**
Unallocated corporate income			**1,119**
Unallocated corporate expenses			**(4,402)**
Finance costs			**(357)**
Loss before taxation			**(13,048)**

For six months period ended 30 September 2017 (unaudited)

	Jewelry wholesale business HK$'000	Solar energy business HK$'000	Total HK$'000
Revenue	10,007	402	10,409
Segment loss	(167)	(4,467)	(4,634)
Unallocated corporate income			364
Unallocated corporate expenses			(7,651)
Loss before taxation			(11,921)

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during both periods.

4. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segment:

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Jewelry wholesale business	**5,521**	2,915
Solar energy business	**36,618**	13,093
Total segment assets	**42,139**	16,008
Structured deposits	**–**	21,217
Bank balances and cash	**50,587**	58,211
Other unallocated assets	**7,628**	8,041
Consolidated assets	**100,354**	103,477
Jewelry wholesale business	**6,652**	2,181
Solar energy business	**3,506**	2,136
Total segment liabilities	**10,158**	4,317
Loans from a controlling shareholder	**69,198**	71,518
Other unallocated liabilities	**3,481**	711
Consolidated liabilities	**82,837**	76,546

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than certain property, plant and equipment, certain other receivables, deposits and prepayments, structured deposits and bank balances and cash.

- all liabilities are allocated to reportable segments other than certain other payables and accruals and loans from a controlling shareholder.

4. SEGMENT INFORMATION (Continued)

Geographical Information

The Group's operations are currently carried out in the People's Republic of China (the "PRC"), the country of domicile, and Hong Kong.

All the revenue of the Group were derived from external customers of jewelry wholesale business located in the PRC and Hong Kong (six months ended 30 September 2017: in the PRC and Hong Kong) and from external customers of solar energy business located in the PRC and Hong Kong (six months ended 30 September 2017: in the PRC excluding Hong Kong).

The Group's revenue from external customers based on the location of customers are set out below:

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
The PRC	**20,423**	8,531
Hong Kong	**15,190**	1,878
	35,613	10,409

Information about the Group's non-current assets based on the geographical location of the assets is set out below:

	At	At
	30 September	31 March
	2018	2018
	HK$'000	HK$'000
	(unaudited)	(audited)
The PRC	**22,807**	13,342
Hong Kong	**63**	198
	22,870	13,540

Note: Non-current assets excluded rental deposits.

5. OTHER GAINS AND LOSSES, NET

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Loss on disposal of property, plant and equipment	**–**	(63)
Net foreign exchange gain (loss)	**634**	(558)
	634	(621)

6. INCOME TAX

On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax regime, the first HK$2,000,000 of profits of the qualifying group entity will be taxed at 8.25% and profits above HK$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong Profits Tax had been made as the Group had no assessable profits arising from Hong Kong for both periods.

Under the law of the PRC on Enterprise Income Tax ("EIT Law") and Implementation Regulation of the EIT Law, the tax rate applied to the PRC subsidiaries is 25%. No provision for PRC Enterprise Income Tax had been made for the Group's PRC subsidiaries as they had no estimated assessable profits for both periods.

7. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging (crediting):

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Cost of inventories recognised as expense	**34,154**	9,989
Depreciation of property, plant and equipment	**1,069**	314
Staff cost (including directors' remuneration)	**6,617**	5,374
Interest income from bank balances	**(404)**	(287)
Interest income from structured deposits	**(79)**	–

8. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(unaudited)	(unaudited)
The Group's loss for the period attributable to owners of the Company for the purposes of calculating basic and diluted loss per share	**(12,783)**	(11,921)
	'000	'000
Weighted average number of ordinary shares for the purposes of calculating basic and diluted loss per share	**330,054**	330,054

The computation of diluted loss per share for both periods does not assume the exercise of share options and warrants as exercise of these instruments would result in a decrease in loss per share.

9. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the current interim period (2017: nil).

10. TRADE RECEIVABLES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

Trade receivables

	At 30 September 2018	At 31 March 2018
	HK$'000	HK$'000
	(unaudited)	(audited)
Trade receivables	**16,074**	2,229
Less: Allowance for impairment	**(561)**	–
	15,513	2,229

10. TRADE RECEIVABLES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

Trade receivables (Continued)

The Group allowed a credit period ranging from 30 to 120 days to its customers of jewelry wholesale business and a credit period of 90 days to its customers of solar energy business. As at 31 March 2018, no trade receivables were past due for which the Group had not provided for impairment loss before the initial application of HKFRS 9 on 1 April 2018. As at 30 September 2018, an impairment loss of approximately HK$561,000 (31 March 2018: nil) was recognised on trade receivables under the Group's ECL model, which was developed based on the Group's internal credit rating for its customers in relation to its jewelry wholesale business and solar energy business. Up to the date these condensed consolidated financial statements are authorised for issue, there has been continuous settlement of the balance of trade receivables. The Group did not hold any collateral over these balances.

The following is an ageing analysis of trade receivables, net of allowance for impairment, presented based on the invoice date at the end of the reporting period, which approximated the revenue recognition dates:

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Within 1 month	**14,565**	1,575
Over 1 month but within 3 months	**948**	654
	15,513	2,229

Allowance for impairment

The movement in the allowance for impairment in respect of trade receivables during the six months ended 30 September 2018 is as follows:

	HK$'000
Balance at 1 April 2018	–
Provided for during the period	561
Balance at 30 September 2018	561

10. TRADE RECEIVABLES AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

Other receivables, deposits and prepayments

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 *HK$'000* (audited)
Other receivables	**744**	1,652
Deposits *(Note)*	**4,885**	5,144
Prepayments	**4,510**	89
	10,139	6,885

Note:

Included in deposits is an amount of RMB3,795,000 (equivalent to approximately HK$4,313,000) (31 March 2018: RMB3,795,000 (equivalent to approximately HK$4,736,000)) representing six months of rent payable (the "Rent Payable") to a private company incorporated in the PRC, which is the landlord (the "Landlord"), under a framework tenancy agreement entered into between the Company and the Landlord on 18 December 2015. Mr. Hu Yishi, who was then the executive director and is a controlling shareholder of the Company, is the indirect beneficial owner having significant influence over the Landlord and, therefore, the Landlord is a related party of the Group. Pursuant to the agreement, the Landlord was required to construct a factory (the "Factory") for the Group to use as the production plant for the solar energy business and, during the period commenced from 18 December 2015 and ended on 31 August 2017, the Group could enter into the tenancy for the Factory for a lease term from any time after the completion of construction of the Factory until 31 August 2017. However, the framework tenancy agreement was not renewed upon its expiration on 31 August 2017 and, due to unexpected additional time required for the construction of the Factory, the completion of the Factory was delayed. On 13 November 2017, the Group and the Landlord entered into a memorandum of understanding (the "MOU") in relation to the Group's proposed acquisition of the Factory. Pursuant to the MOU, the Landlord agreed that the Group could use the Factory, when it is completed the construction and commences for the operation, for production and operation at no cost until the execution of the acquisition agreement or lease agreement in relation to the Factory or on 30 June 2018, whichever is later. The Group agreed to use the Rent Payable as the refundable security deposit for any damage on facilities or equipment during the period the Group could use the Factory at no cost. Therefore, the deposit is classified as current asset as at 31 March 2018. On 24 April 2018, the Group entered into a sales and purchase agreement with the Landlord in relation to the acquisition of the Factory.

Pursuant to the sale and purchase agreement, the purchaser has conditionally agreed to purchase by itself or any wholly-owned subsidiary of the Company established in the PRC, and the Landlord has conditionally agreed to sell the Factory and the land parcel at an aggregate consideration of RMB59,212,000 (equivalent to approximately HK$73,908,000), subject to adjustment and to be settled by installments. The first instalment of RMB10,000,000 (equivalent to approximately HK$11,364,000) was paid during the six months ended 30 September 2018 and was recognised as deposits paid for acquisition of property, plant and equipment under non-current assets in the Group's condensed consolidated statement of financial position. The last instalment of the consideration shall be offset by the Rental Payable. Details of the acquisition and the payment terms are disclosed in the Company's circular dated 24 August 2018. Up to the date these condensed consolidated financial statements are authorised for issue, the acquisition has been approved by the Company's shareholders but it has not been completed yet.

11. TRADE AND OTHER PAYABLES AND ACCRUALS

Trade payables

The following is an ageing analysis of trade payables, presented based on the invoice date at the end of the reporting period:

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Within 1 month	**8,661**	1,495
Over 1 month but within 3 months	**995**	642
Over 3 months but within 6 months	**–**	2
Over 6 months	**2**	–
	9,658	2,139

Other payables and accruals

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Other payables	**2,383**	1,972
Accrued expenses	**1,598**	917
	3,981	2,889

12. LOANS FROM A CONTROLLING SHAREHOLDER

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Loans from a controlling shareholder		
– current liabilities	**54,026**	71,518
– non-current liabilities	**15,172**	–
	69,198	71,518

All the loans from a controlling shareholder are unsecured and interest-free.

The loans from a controlling shareholder as at 30 September 2018 and 31 March 2018 recognised as current liabilities have no fixed repayment term.

The loans from a controlling shareholder as at 30 September 2018 recognised as non-current liabilities are repayable in two years from the drawdown date, which will be in May 2020. On initial recognition of these non-current loans, these loans were discounted using the prevailing market rate of interest for similar instruments and an adjustment to the loans of approximately HK$1,654,000 was credited to reserve under the heading of "shareholder's contribution" in the Group's condensed consolidated statement of changes in equity. During the six months ended 30 September 2018, finance costs of approximately HK$357,000, which represent imputed interest of these loans, were charged to profit or loss.

13. SHARE CAPITAL

	Number of shares '000	**Amount** HK$'000
Ordinary shares with nominal value of HK$0.01 each		
Authorised:		
At 31 March 2018 and 30 September 2018	10,000,000	100,000
Issued and fully paid:		
At 31 March 2018 (audited) and 30 September 2018 (unaudited)	330,054	3,301

14. SHARE OPTIONS SCHEME AND WARRANTS

Share options scheme

On 9 September 2016, the Company had terminated the share option scheme adopted by the Company on 26 February 2007 (the "Share Option Scheme 2007"), which had supposed to expire on 25 February 2017, and adopted a new share option scheme (the "New Share Option Scheme") for the purpose of recognising and acknowledging the contributions made by the participants to the Company, motivating the participants to optimise their performance and efficiency for the benefits of the Group and to maintain or attract business relationship with the participants whose contributions are beneficial to the growth of the Group.

The Group may grant to any participant who has made valuable contributions to the business of the Group based on his or her performance and/or years of service, or is regarded as valuable resources of the Group based on his or her work experience and knowledge in the industry, or is expected to be able to contribute to the prosperity, business development or growth of the Group based on his or her business connection and network.

The New Share Option Scheme became effective on 9 September 2016 and, unless otherwise cancelled or amended, will remain in force for a period of ten years from the date of its adoption. HK$10.00 is payable by each eligible participant to the Company on acceptance of the grant of an option.

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the shares of the Company in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each eligible participant in any 12-month period must not exceed 1% of the aggregate number of shares of the Company in issue. Where any further grant of options to an eligible participant would result in the shares issued or to be issued upon exercise of all options granted and to be granted to such eligible participant in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares of the Company in issue, such further grant must be separately approved by the shareholders in general meeting with such an eligible participant and his associates abstaining from voting.

The exercise price of the share options is determined by the committee of the board of the directors of the Company, but is at least be the highest of: (a) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant; (b) the average of the closing prices of the shares as stated in the daily quotation sheets issued by the Stock Exchange over the five trading days immediately preceding the date of grant; or (c) the nominal value of a share.

On 9 March 2018, an aggregate of 16,000,000 share options with an exercise price of HK$1.148 per share was granted by the Company to eligible employees and consultants. The share options granted are exercisable from 1 July 2018 to 8 March 2028 and are vested in three tranches at the beginning of each exercisable period with (i) 3,200,000 share options shall become exercisable from 1 July 2018 to 8 March 2028; (ii) 6,400,000 share options shall become exercisable from 1 January 2019 to 8 March 2028; and (iii) 6,400,000 share options shall become exercisable from 1 July 2019 to 8 March 2028.

14. SHARE OPTIONS SCHEME AND WARRANTS (Continued)

Share options scheme (Continued)

The fair value of the share option granted on 9 March 2018 was calculated using the Binomial model. The inputs into the model were as follows:

Stock price	HK$1.14 per share
Exercise price	HK$1.148 per share
Risk-free rate	2.09%
Expected dividend yield	0%
Expected volatility	56.09%
Expiry date	8 March 2028
Time to maturity	10 years

Expected volatility was determined by using the average historical volatility of comparable companies and the Company as at valuation date.

The following table discloses details of the options held by directors of the Company and employees and other eligible participants and movements in such holdings during the period.

The New Share Option Scheme

				Number of options		
Grantee	Date of grant	Exercise price	Exercise period	Outstanding at 1 April 2018	Forfeited during the period	Outstanding at 30 September 2018
		HK$				
Employees	9 March 2018	1.148	1 July 2018 to 8 March 2028	9,000,000	(2,000,000)	7,000,000
Consultants	9 March 2018	1.148	1 July 2018 to 8 March 2028	7,000,000	–	7,000,000
				16,000,000	(2,000,000)	14,000,000
Exercisable at the beginning/end of the period				–		–
Weighted average exercise price				HK$1.148	HK$1.148	HK$1.148

The estimated fair value of share options granted on 9 March 2018 was HK$9,133,000.

During the six months ended 30 September 2018, the Group recognised the total expense of approximately HK$4,601,000 (six months ended 30 September 2017: nil) in relation to these share options.

14. SHARE OPTIONS SCHEME AND WARRANTS (Continued)

Unlisted warrants

On 2 October 2015, an aggregate of 24,000,000 warrants with an exercise price of HK$2.5 per warrant share was granted by the Company to Suncool AB under the Suncool Subscriptions (defined in the Company's circular dated 13 August 2015). The warrants granted are exercisable from 1 October 2016 to 30 September 2018 and are vested in three tranches at the beginning of each exercisable period with (i) 8,000,000 warrants shall become exercisable from 1 October 2016 to 30 September 2018; (ii) 8,000,000 warrants shall become exercisable from 1 April 2017 to 30 September 2018; and (iii) 8,000,000 warrants shall become exercisable from 1 October 2017 to 30 September 2018.

The following table discloses details of the warrants held by Suncool AB and movements in such holding during the period.

				Number of warrants		
Grantee	Date of grant	Exercise price HK$	Exercise period	Outstanding at 1 April 2018	Lapsed during the period	Outstanding at 30 September 2018
Suncool AB	2 October 2015	2.5	1 October 2016 to 30 September 2018	24,000,000	(24,000,000)	–
Exercisable at the beginning/end of the period				24,000,000	(24,000,000)	–
Weighted average exercise price				HK$2.5	HK$2.5	HK$2.5

The estimated fair value of warrants granted on 2 October 2015 was HK$23,111,000.

During the six months ended 30 September 2017, the Group recognised the total expense of HK$1,945,000 in relation to these warrants and these warrants were fully vested as of 30 September 2017.

15. OPERATING LEASES COMMITMENTS

As lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Within one year	**2,657**	2,189
In the second to fifth year inclusive	**4,052**	5,402
	6,709	7,591

16. CAPITAL COMMITMENTS

Capital expenditure in respect of property, plant and equipment:

	At 30 September 2018 HK$'000 (unaudited)	At 31 March 2018 HK$'000 (audited)
Contracted for but not provided for in the condensed consolidated financial statements – acquisition of property, plant and equipment	**51,613**	–

17. RELATED PARTY TRANSACTIONS

The Group had entered into the following related party transactions during the periods:

Compensation of key management personnel

The remuneration of directors of the Company and other members of key management during the periods were as follows:

	2018 HK$'000 (unaudited)	2017 HK$'000 (unaudited)
Short-term employee benefits	**1,995**	3,624
Post-employment benefit	**63**	154
	2,058	3,778

Other than as disclosed above and in notes 10 and 12 respectively, there were no other material related party transactions during the six months ended 30 September 2018 and no other material related party balances as at 30 September 2018.

18. EVENT AFTER THE END OF THE REPORTING PERIOD

On 19 October 2018, the Group granted a total of 32,520,000 share options to subscribe for up to a total of 32,520,000 ordinary shares of the Company to directors of the Company and employees and consultants of the Group. Details about the grant of these share options are set out in the Company's announcement dated 19 October 2018.