



LongRun
龍潤

LONGRUN TEA GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)
Stock code : 2898



Interim Report 2009

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Chiu Ka Leung	<i>Chairman</i>
Ms. Yeh Shu Ping	<i>Vice-Chairman and Chief Executive Officer</i>
Mr. Jiao Shaoliang	<i>Executive Director</i>
Mr. Lu Pingguo	<i>Executive Director</i>
Mr. Lam Siu Hung	<i>Independent non- executive Director</i>
Mr. Guo Guoqing	<i>Independent non- executive Director</i>
Mr. Kwok Hok Lun	<i>Independent non- executive Director</i>

AUDIT COMMITTEE

Mr. Lam Siu Hung	<i>Chairman</i>
Mr. Guo Guoqing	
Mr. Kwok Hok Lun	

REMUNERATION COMMITTEE

Mr. Chiu Ka Leung	<i>Chairman</i>
Ms. Yeh Shu Ping	<i>Vice-Chairman</i>
Mr. Lam Siu Hung	
Mr. Guo Guoqing	
Mr. Kwok Hok Lun	

COMPANY SECRETARY

Mr. Hui Pang To, *FCCA, CPA*

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

14th Floor,
Tower One,
Ever Gain Plaza,
No. 88 Container Port Road,
Kwai Chung,
Hong Kong.

AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre,
8 Finance Street, Central,
Hong Kong.

LEGAL ADVISERS

As to Hong Kong law:

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

As to Cayman Islands law:

Conyers Dill & Pearman
Cricket Square,
Hutchins Drive,
P.O. Box 2681,
Grand Cayman KY1-1111,
Cayman Islands.

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking
Corporation Limited
HSBC Main Building,
1 Queen's Road Central,
Hong Kong.

DBS Bank (Hong Kong) Limited
11th Floor, The Center,
99 Queen's Road Central,
Hong Kong.

Fubon Bank (Hong Kong) Limited
Fubon Bank Building,
38 Des Voeux Road Central,
Hong Kong.

The Bank of East Asia, Limited
10 Des Voeux Road Central,
Hong Kong.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House,
68 Fort Street,
P.O. Box 609,
Grand Cayman KY1-1107,
Cayman Islands.

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26/F, Tesbury Centre,
28 Queen's Road East,
Hong Kong.

WEBSITE

www.longruntea.com

The directors (the "Directors") of Longrun Tea Group Company Limited (the "Company") announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2009, together with the comparative figures for the corresponding period of 2008, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2009

	Notes	For the six months ended 30 September	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
REVENUE	2	46,045	19,154
Cost of sales		(24,975)	(8,028)
Gross profit		21,070	11,126
Other income and gains	3	2,429	84
Selling and distribution costs		(3,788)	(3,335)
Share option expenses	15	(39,120)	–
Administrative expenses		(10,698)	(10,612)
Other expenses		(23)	(32)
Finance costs	4	(756)	(485)
LOSS BEFORE TAX	5	(30,886)	(3,254)
Tax	6	(2,764)	–
LOSS FOR THE PERIOD ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY		(33,650)	(3,254)
INTERIM DIVIDEND	7	–	–
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
– Basic		(HK4.21 cents)	(HK0.54 cent)
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2009

	For the six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Loss for the period	(33,650)	(3,254)
Exchange differences on translation of foreign operations	(186)	1,563
Other comprehensive (loss)/income for the period, net of tax	(186)	1,563
Total comprehensive loss for the period, net of tax attributable to ordinary equity holders of the Company	(33,836)	(1,691)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2009

		30 September 2009 (Unaudited) <i>HK\$'000</i>	31 March 2009 (Audited) <i>HK\$'000</i>
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	9	32,724	34,171
Prepaid land lease payments	10	21,764	22,054
Goodwill	17	116,920	–
Intangible assets	17	47,858	–
Deferred tax assets		240	240
Total non-current assets		219,506	56,465
CURRENT ASSETS			
Inventories		12,816	11,477
Trade receivables	11	39,321	9,831
Prepayments, deposits and other receivables	19(b)	5,836	2,612
Derivative financial instruments	13	6,022	–
Financial assets at fair value through profit or loss		429	232
Tax recoverable		–	49
Pledged deposits		375	375
Cash and cash equivalents		65,727	5,599
Total current assets		130,526	30,175
CURRENT LIABILITIES			
Trade payables	12	14,383	2,548
Tax payable		2,715	–
Other payables and accruals		11,208	7,709
Interest-bearing bank and other borrowings		8,255	8,227
Due to a related company	19(a)	113	113
Due to directors	19(c)	1,265	6,070
Total current liabilities		37,939	24,667

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

30 September 2009

	Notes	30 September 2009 (Unaudited) <i>HK\$'000</i>	31 March 2009 (Audited) <i>HK\$'000</i>
NET CURRENT ASSETS		92,587	5,508
TOTAL ASSETS LESS CURRENT LIABILITIES		312,093	61,973
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		11,089	12,224
Convertible bonds	13	66,428	–
Deferred tax liabilities		12,135	170
Total non-current liabilities		89,652	12,394
Net assets		222,441	49,579
EQUITY			
Issued capital	14	56,800	30,000
Equity component of convertible bonds	13	28,250	–
Reserves	16	137,391	19,579
Total equity		222,441	49,579

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2009

	For the six months ended 30 September	
	2009 (Unaudited) <i>HK\$'000</i>	2008 (Unaudited) <i>HK\$'000</i>
Total equity at 1 April	49,579	53,592
Loss for the period	(33,650)	(3,254)
Issue of shares	139,328	–
Issue of convertible bonds	28,250	–
Equity-settled share option arrangements	39,120	–
Exchange realignment	(186)	1,563
Total equity at 30 September	222,441	51,901

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2009

	For the six months ended 30 September	
	2009 (Unaudited) <i>HK\$'000</i>	2008 (Unaudited) <i>HK\$'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(71,365)	(1,595)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	63,458	(150)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	68,221	(9,104)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	60,314	(10,849)
Cash and cash equivalents at beginning of period	5,599	19,941
Effect of foreign exchange rate changes, net	(186)	411
CASH AND CASH EQUIVALENTS AT END OF PERIOD	65,727	9,503
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	65,727	8,959
Non-pledged time deposits with original maturity of less than three months when acquired	–	544
	65,727	9,503

NOTES TO INTERIM FINANCIAL INFORMATION

30 September 2009

1. ACCOUNTING POLICIES

The condensed interim financial information is prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31 March 2009, except in relation to the following accounting policies that affect the Group and are adopted for the first time for the current period’s financial statements:

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group’s interest in the net fair value of the acquirees’ identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

1. ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

The Group's intangible assets (mainly right to the use of trademark and exclusive purchase right) are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 10 years.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

1. ACCOUNTING POLICIES (Continued)

The following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

HKFRSs (Amendments)	Improvements to HKFRSs
HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of HKFRSs</i> and HKAS 27 <i>Consolidated and Separate Financial Statements</i> – <i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures</i> – <i>Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation</i> and HKAS 1 <i>Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>

HKAS 1 (Revised) Presentation of Financial Statements

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). The Group has elected to present in two statements (a separate income statement and a statement of comprehensive income).

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has resulted in a re-designation of the Group’s reportable segments and disclosure of information about business segments, but has no impact on the results or financial positions of the Group.

2. SEGMENT INFORMATION

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 April 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. HKFRS 8 replaces the requirement under HKAS 14 to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of HKFRS 8 did not have any effect on the Group's results of operations or financial position.

The Group determines that it has two reportable segments which are as follows:

- (a) the "Manufacturing and distribution of pharmaceutical products" segment engages in the manufacturing, sale and distribution of pharmaceutical products; and
- (b) the "Distribution of tea and other food products" segment engages in the sale and distribution of tea and other food products.

The following table presents the revenue and assets of the Group's operating segments for the six months ended 30 September 2009 and 2008, respectively.

	Six months ended 30 September					
	Manufacturing and distribution of pharmaceutical products		Distribution of tea and other food products		Consolidated	
	2009	2008	2009	2008	2009	2008
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	16,566	19,154	29,479	-	46,045	19,154
Other income	561	54	-	-	561	54
Total	17,127	19,208	29,479	-	46,606	19,208
Segment assets	93,399	94,727	256,633	-	350,032	94,727

3. OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Other income		
Interest income	6	30
Rental income	5	10
Others	556	44
	567	84
Gains		
Fair value gains on derivative financial instruments, net	1,862	-
	2,429	84

4. FINANCE COSTS

	For the six months ended 30 September	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Interest on bank loans	238	483
Interest on convertible bonds	518	-
Interest on finance leases	-	2
	756	485

5. LOSS BEFORE TAX

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

	For the six months ended 30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	24,900	6,599
Depreciation	1,535	1,739
Amortisation of land lease payments	284	289
Write-down of inventories to net realisable value*	54	1,393
Loss on write-off/disposal of items of property, plant and equipment, net	–	29

* Included in "Cost of sales" on the face of the condensed consolidated income statement.

6. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the current and prior periods. The corporate income tax provision of the Group in respect of operations in Mainland China has been calculated at 25% on the estimated assessable profits for the period ended 30 September 2009 based on the existing legislation, interpretations and practices. No provision for corporate income tax in Mainland China has been made in the prior period as the Group's subsidiary has available tax losses brought forward from prior years to offset the assessable profits generated during the prior period.

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

7. INTERIM DIVIDEND

The Directors did not propose to declare an interim dividend for the six months ended 30 September 2009 (2008: Nil).

8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share amount is based on the net loss for the period attributable to ordinary equity holders of the Company of HK\$33,650,000 (six months ended 30 September 2008: HK\$3,254,000) and the weighted average of 798,756,776 (six months ended 30 September 2008: 600,000,000) ordinary shares in issue during the period.

Diluted loss per share amounts for the periods ended 30 September 2009 and 2008 have not been disclosed as the share options and the convertible bonds outstanding during these periods had an anti-dilutive effect on the basic loss per share for these periods.

9. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings (Unaudited) <i>HK\$'000</i>	Leasehold improvements (Unaudited) <i>HK\$'000</i>	Plant and machinery (Unaudited) <i>HK\$'000</i>	Furniture, fixtures and office equipment (Unaudited) <i>HK\$'000</i>	Motor vehicles (Unaudited) <i>HK\$'000</i>	Computer equipment (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Cost:							
At 1 April 2009	42,132	2,728	11,747	1,974	2,390	1,037	62,008
Additions	-	-	13	61	-	7	81
Acquisition of subsidiaries	-	-	-	7	-	-	7
Disposal/write-off	-	-	-	-	(83)	-	(83)
At 30 September 2009	42,132	2,728	11,760	2,042	2,307	1,044	62,013
Accumulated depreciation:							
At 1 April 2009	9,538	1,864	11,541	1,564	2,390	940	27,837
Provided during the period	1,057	273	57	128	-	20	1,535
Disposal/write-off	-	-	-	-	(83)	-	(83)
At 30 September 2009	10,595	2,137	11,598	1,692	2,307	960	29,289
Net book value:							
At 30 September 2009	31,537	591	162	350	-	84	32,724
At 31 March 2009	32,594	864	206	410	-	97	34,171

10. PREPAID LAND LEASE PAYMENTS

	(Unaudited) <i>HK\$'000</i>
Carrying amount at 1 April 2009	22,624
Recognised during the period	(284)
Carrying amount at 30 September 2009	22,340
Current portion included in prepayments, deposits and other receivables	(576)
Non-current portion	21,764
Carrying amount at 1 April 2009	22,624
Current portion included in prepayments, deposits and other receivables	(570)
Non-current portion	22,054

11. TRADE RECEIVABLES

The Group allows an average credit period ranging from 30 days to 180 days to its customers. An aged analysis of the trade receivables as at the reporting date, based on payment due date, that are not considered to be impaired, is as follows:

	30 September 2009 (Unaudited) HK\$'000	31 March 2009 (Audited) HK\$'000
Current (neither past due nor impaired)	34,733	3,783
Within 1 to 3 months overdue	2,997	4,171
More than 3 months overdue but less than 12 months overdue	655	1,388
Over 12 months overdue	936	489
	39,321	9,831

Included in the Group's trade receivables is an amount due from a related party, 北京龍潤商貿有限公司, a company beneficially owned by Mr. Chiu Ka Leung, a director of the Company, of approximately HK\$376,000 (31 March 2009: Nil). The amount is repayable on similar credit terms to those offered to the major customers of the Group.

12. TRADE PAYABLES

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

	30 September 2009 (Unaudited) HK\$'000	31 March 2009 (Audited) HK\$'000
Current	11,164	–
Within 1 to 3 months overdue	2,612	2,166
More than 3 months overdue but less than 12 months overdue	319	97
Over 12 months overdue	288	285
	14,383	2,548

Included in the Group's trade payable are amounts due to related parties, subsidiaries of 龍潤茶業集團有限公司 (Longrun Tea Group Limited ("LRTG")) of approximately HK\$10,625,000 (31 March 2009: Nil). LRTG is beneficially owned as to 90% and 10% by Mr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively. The amounts are repayable on similar credit terms to those obtained from the major suppliers of the Group.

13. CONVERTIBLE BONDS

On 23 July 2009, the Company issued convertible bonds with an aggregate principal amount of HK\$30,000,000 ("Subscription CBs") for cash and convertible bonds with an aggregate principal amount of HK\$60,000,000 ("Acquisition CBs") as part of the consideration for the acquisition of subsidiaries (note 17). There was no movement in the number of these convertible bonds during the period. The bonds are convertible at the option of the bondholders into ordinary shares on or after 23 July 2010 at a conversion price of HK\$0.3 per share. Any convertible bonds not converted will be redeemed by the Company on 23 July 2012. The bonds carry interest at a rate of 3% per annum, which is payable half-yearly in arrears starting from 23 January 2010.

The call/put options in respect of early redemption of the Subscription CBs exhibit characteristics of embedded derivatives and are separated from the liability and equity components. On initial recognition, the derivative component of the Subscription CBs is measured at fair value and presented as part of derivative financial instruments, and is remeasured at fair value at each reporting date. The fair value of the liability component of the Subscription CBs was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option or other embedded derivative. The residual amount is assigned as the equity component and is included in shareholders' equity.

The fair value of the liability component of the Acquisition CBs was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The convertible bonds issued during the period have been split as to the embedded derivatives and the liability and equity components, as follows:

	30 September 2009 (Unaudited) HK\$'000	31 March 2009 (Audited) HK\$'000
Nominal value of convertible bonds issued during the period	90,000	–
Equity component	(28,250)	–
Derivative financial instruments, net	4,160	–
Liability component at the issuance date	65,910	–
Interest expense	518	–
Liability component at end of period/year	66,428	–

14. SHARE CAPITAL

	30 September 2009 (Unaudited) HK\$'000	31 March 2009 (Audited) HK\$'000
Authorised		
5,000,000,000 ordinary shares of HK\$0.05 each	250,000	250,000
Issued and fully paid		
1,136,010,000 (31 March 2009: 600,000,000) ordinary shares of HK\$0.05 each	56,800	30,000

During the period, the movements in share capital were as follows:

- (a) On 17 April 2009, the subscription rights attaching to 3,010,000 pre-IPO share options were exercised at the subscription price of HK\$0.375 per share, resulting in the issue of 3,010,000 ordinary shares of the Company and new share capital of HK\$150,000 and share premium of HK\$978,000 (before issue expenses).
- (b) On 23 July 2009, 100,000,000 shares of HK\$0.05 each were issued for cash at a subscription price of HK\$0.25 per share for a total cash consideration, before expenses, of HK\$25,000,000. On the same date, 400,000,000 shares of HK\$0.05 each were issued at the issue price of HK\$0.25 per share as part of the consideration for the acquisition of subsidiaries (note 17).
- (c) On 2 September 2009, the subscription rights attaching to 33,000,000 share options were exercised at the subscription price of HK\$0.40 per share, resulting in the issue of 33,000,000 ordinary shares of the Company and new share capital of HK\$1,650,000 and share premium of HK\$11,550,000 (before issue expenses).

15. SHARE OPTIONS

On 22 August 2002, a share option scheme was adopted by the Company under which the Directors may, at their discretion, offer to any employee (including any director) of the Company or any subsidiary of the Company and other eligible participants as referred to in the rules of the share option scheme to take up options to subscribe for shares in the Company subject to the terms and conditions stipulated in the share option scheme.

As at 1 April 2009, the Company had 4,300,000 share options outstanding under the said share option scheme with an exercise price of HK\$0.375 per share and an exercise period from 9 September 2003 to 8 September 2012. On 17 April 2009, 3,010,000 share options were exercised which result in issue of 3,010,000 ordinary shares of the Company and new share capital of HK\$150,000 and share premium of HK\$978,000 (before issue expenses).

On 23 July 2009, 50,000,000 share options were granted to certain directors and employees. The share options have an exercise price of HK\$0.4 per share and the market price of the Company's shares at the date of grant was HK\$1.33 per share. The fair value of these options granted is estimated at the date of grant using the binomial model, taking into account the terms and conditions upon which the options were granted. The contractual life of the share options granted is five years. 75% of the share options are exercisable after the grant date while the remaining 25% are exercisable from the date falling six months from the grant date. The fair value of the options granted during the period was estimated on the date of grant using the following assumptions:

Dividend yield (%)	0
Historical volatility (%)	84
Expected volatility (%)	84
Risk-free interest rate (%)	1.712
Exercise multiple	2.2
Weighted average share price (HK\$)	1.33

The fair value of the share options granted during the period was HK\$47,011,000, of which the Group recognised a share option expense of HK\$39,120,000 during the period.

On 2 September 2009, an aggregate of 33,000,000 shares options were exercised which result in the issue of 33,000,000 ordinary shares of the Company and new share capital of HK\$1,650,000 and share premium of HK\$11,550,000 (before issue expenses).

At the date of approval of the interim financial information, the Company had 1,290,000 share options outstanding under the share option scheme with an exercise price of HK\$0.375 per share and 17,000,000 share options outstanding pursuant to the option agreements with an exercise price of HK\$0.4 per share, which represent approximately 1.6% of the Company's shares in issue as at that date.

16. RESERVES

	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits/ (accumulated losses) (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2009	8,720	300	-	7,037	3,522	19,579
Issue of shares	143,218	-	(30,690)	-	-	112,528
Equity-settled share option arrangements	-	-	39,120	-	-	39,120
Exchange realignment	-	-	-	(186)	-	(186)
Loss for the period	-	-	-	-	(33,650)	(33,650)
At 30 September 2009	151,938	300	8,430	6,851	(30,128)	137,391
At 1 April 2008	8,720	300	-	5,543	9,029	23,592
Exchange realignment	-	-	-	1,563	-	1,563
Loss for the period	-	-	-	-	(3,254)	(3,254)
At 30 September 2008	8,720	300	-	7,106	5,775	21,901

17. BUSINESS COMBINATION

Business combination of Longrun Tea Wealth Creation Company Limited in the current period

On 23 July 2009, the Group acquired from Longrun Tea Asset Management Company Limited ("LTAMCL"), the entire share capital and a shareholder's loan of Longrun Tea Wealth Creation Company Limited, a holding company of a group of companies comprising Longrun Tea Trading Company Limited and 雲南龍潤商貿有限公司 (Yunnan Longrun Trading Company Limited) (collectively the "Longrun Group"), which are principally engaged in the distribution of tea and food products. LTAMCL is a company which is beneficially owned by Mr. Chiu Ka Leung, a director of the Company. The acquisition has been accounted for using the purchase method of accounting.

17. BUSINESS COMBINATION (Continued)

Business combination of Longrun Tea Wealth Creation Company Limited in the current period (Continued)

The fair value of the identifiable assets and liabilities of the Longrun Group as at the date of acquisition determined on a provisional basis and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition (Unaudited) <i>HK\$'000</i>	Previous carrying value (Unaudited) <i>HK\$'000</i>
Property, plant and equipment	7	7
Intangible assets	47,858	–
Inventories	6,616	6,616
Trade receivables	1,264	1,264
Other receivables	3,868	3,868
Cash and cash equivalents	66,334	66,334
Other payables and accruals	(12,870)	(12,870)
Due to holding company	(54,348)	(54,348)
Due to a director	(10,889)	(10,889)
Deferred tax liabilities	(11,965)	–
	35,875	<u>(18)</u>
Goodwill arising on acquisition	116,920	
	<u>152,795</u>	
Satisfied by:		
Issue of shares	100,000	
Issue of convertible bonds	60,000	
Transaction costs directly attributable to the acquisition	2,795	
Debt assigned to the Group	(10,000)	
	<u>152,795</u>	

The total acquisition cost of HK\$152,795,000 comprised the allotment and issue of 400,000,000 shares in the Company at the issue price of HK\$0.25 per share, the issue of Acquisition CBs with an aggregate principal amount of HK\$60,000,000, costs of HK\$2,795,000 directly attributable to the acquisition and debt assigned to the Group of HK\$10,000,000.

17. BUSINESS COMBINATION (Continued)

Business combination of Longrun Tea Wealth Creation Company Limited in the current period (Continued)

Since the acquisition, the Longrun Group has contributed HK\$29,479,000 to the Group's turnover and profit of HK\$8,062,000 to the results of the Group. If the combination had taken place at the beginning of the period, the revenue of the Group and the loss of the Group for the period would have been HK\$48,267,000 and HK\$33,576,000, respectively.

The goodwill recognised above is attributed to the expected synergies and other benefits from combining the assets and activities of the Longrun Group with those of the Group.

18. OPERATING LEASES COMMITMENTS

The Group leases certain of its office properties and warehouses under operating lease arrangements. Leases for properties are negotiated for terms ranging from six months to three years.

At 30 September 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2009 (Unaudited) HK\$'000
Within one year	1,724
In the second to fifth years, inclusive	3,508
	5,232

19. RELATED PARTY TRANSACTIONS

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

- (a) The amount due to a related party, 雲南龍潤藥業有限公司 (Yunnan Long Run Pharmaceuticals Company Limited ("YLRP")) is unsecured, interest-free and has no fixed terms of repayment. YLRP is a wholly owned subsidiary of Long Run Pharmaceuticals Group Limited, which is beneficially owned as to 90% and 10% by Mr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.
- (b) Included in the Group's prepayments, deposits and other receivables is a prepayment for purchases of tea products made to a subsidiary of LRTG, of approximately HK\$1,292,000 (31 March 2009: Nil). LRTG is beneficially owned as to 90% and 10% by Mr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.
- (c) The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

19. RELATED PARTY TRANSACTIONS (Continued)

(d) Compensation of key management personnel of the Group

	For the six months ended 30 September	
	2009	2008
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	3,096	3,082
Post-retirement benefits	42	42
Share-based payments	30,690	-
	33,828	3,124

(e) The Company had the following material transactions with related parties during the period:

		For the six months ended 30 September	
		2009	2008
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Name of related party	Notes		
Purchase of tea products from:			
Changning Longrun Tea Co., Ltd.	(i), (ii)	5,271	-
Fengqing Longrun Tea Co., Ltd.	(i), (ii)	3,212	-

Notes:

- (i) The company is a wholly owned subsidiary of LRTG, which is beneficially owned as to 90% and 10% by Mr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.
- (ii) The transactions were conducted at rates mutually agreed between both parties.

The above transactions entered into by the Group during the period ended 30 September also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

20. PLEDGE OF ASSETS

As at 30 September 2009, the Group's bank deposits of approximately HK\$375,000 (31 March 2009: HK\$375,000) and leasehold land and buildings with an aggregate net book value of approximately HK\$27,838,000 (31 March 2009: HK\$28,428,000) were pledged to secure banking facilities granted to the Group.

21. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

This interim financial information was approved and authorised for issue by the board of Directors on 22 December 2009.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

ERNST & YOUNG

安永

**To the board of directors of
Longrun Tea Group Company Limited**
(Formerly Long Far Pharmaceutical Holdings Limited)

INTRODUCTION

We have reviewed the interim financial information set out on pages 2 to 22 which comprises the condensed consolidated statement of financial position of Longrun Tea Group Company Limited as of 30 September 2009 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and 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 directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made 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 Hong Kong Institute of Certified Public Accountants. A review of interim financial information 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong

22 December 2009

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the six months ended 30 September 2009, turnover of the Group amounted to HK\$46,045,000 (2008: HK\$19,154,000), an increase of approximately 140% as compared with the same period last year. Such increase was mainly due to the contribution of the Group's newly acquired tea business. During the period under review, loss of the Group increased to HK\$33,650,000 (2008: loss of HK\$3,254,000). The increase in loss was mainly attributable to one-off expenses incurred as a result of the issue of the share options by the Company. Such expenses were one-off non-cash items and did not have any impact on the operating cash flows of the Group. Excluding these expenses incurred, the interim results of the Group for the six months ended 30 September 2009 showed a turnaround as compared with those of the corresponding period last year as the newly acquired tea business has started to provide positive contributions. Basic loss per share was HK4.21 cents (2008: basic loss per share of HK0.54 cent).

BUSINESS REVIEW

On 25 May 2009, the Group announced the acquisition of the entire issued share capital of Longrun Tea Wealth Creation Company Limited at a consideration of HK\$160,000,000, marking its entry into the lucrative tea market in the People's Republic of China ("PRC"). The Company was subsequently renamed "Longrun Tea Group Company Limited" to reflect its new business focus. During the period under review, the Group started distributing tea products under the well-established "Longrun" (龍潤) brand in the PRC market. To promote the brand and the quality tea products under the brand, the Group has been active in expanding its distribution network including self-operated and franchise stores. Although the Group's acquisition of the tea business was only completed in late July, the tea business had already generated revenue of approximately HK\$29,479,000, equivalent to 64% of the total turnover of the Group for the period under review. With full contribution starting next year, the Group's tea business is expected to become the growth driver of the Group for the coming years.

During the period under review, the Group also continued to operate its healthcare products business in steady strides. Revenue from this division was approximately HK\$16,566,000, accounting for approximately 36% of the total revenue of the Group. "Beauty and Healthy" (排毒美顏寶) continued to be the Group's main revenue contributor for healthcare products business during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

Geographically, Mainland China and Hong Kong and other Southeast Asia countries accounted for 85.1% and 14.9% of the total turnover of the Group for the period under review, respectively, and the proportion of contribution from Mainland China has been continuing to rise.

Mainland China

The Group recorded a 291.3% growth in sales of this region during the review period, mainly attributable to the contribution from the Group's newly acquired tea business.

Hong Kong and other Southeast Asia countries

Although there were signs of improvement in the economic climate and in general public confidence in the future during the period under review, the restoration of consumption sentiment took time and affected the Group's business in these regions, mainly the healthcare products business, to a certain extent. Nevertheless, the Group's healthcare products have cemented reputation in the market. Sales of these products have been stable over the years and this bolsters the confidence of the Group in sustaining growth.

STRATEGIC PARTNERSHIP

During the period under review, the Group signed an investment agreement with Rocket Capital Holdings Limited ("Rocket Capital") which became its strategic partner. The ultimate controlling shareholder of Rocket Capital is Mr. Kenneth Huang, who is a veteran investment manager specialising in investing in emerging markets particularly in the Greater China region. The strategic partnership with Mr. Huang has strengthened the Group's financial position for future business development. Capitalising on the extensive business networks of Mr. Huang, the Group will actively grow its tea business in PRC and continue to look for profitable business opportunities.

AWARDS

The Group continued to be among the leaders in the healthcare product industry. The Group's product, "Beauty and Healthy" (排毒美顏寶) has been honoured with two awards, including the Gold Award of Watsons Health, Wellness And Beauty Award 2009 (屈臣氏2009年度「亮金級健康美麗大獎」) and The Best Selling Detoxification Product Awards, Mannings (萬寧2008-2009年度「至FIT排毒獎」) during the review period.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

PROSPECTS

The PRC Government's measures in stimulating domestic demand will definitely benefit the Group's business in PRC, and the Group will continue to devote more resources into expanding its tea business. "Longrun" (龍潤) is a premium brand of pu'erh tea products in Mainland China. It is among the "Top Ten Brands in Yunnan" and rated the most popular tea product in the country at the Fourth China Agricultural Trade Fair. The pu'erh tea products under "Longrun" (龍潤) brand of Longrun Tea Group Limited, which has engaged the Group as the sole distributor of its tea products, have also been honoured to be the appointed pu'erh tea for Diaoyutai State Guesthouse (釣魚臺國賓館). Longrun Tea Group Limited was licensed by Coca Cola (China) Beverages Ltd. as the only tea company to manufacture and sell tea products for the 2008 Beijing Olympics. With pu'erh tea boasting many health benefits and unique cultural value, the Group is confident of the development of its newly acquired tea business and will endeavour to capture a large market share in the PRC tea market.

The Group is actively developing its business in the booming tea market in the PRC. With the support of the professional tea sales and promotion team of the Group, we are confident that the tea business will enable the Group to enhance its profitability and generate satisfactory returns for its shareholders in the future. Under the acquisition agreement, the Group has been guaranteed a profit after tax of Longrun Tea Wealth Creation Company Limited and its subsidiaries of no less than HK\$20,000,000 and HK\$60,000,000 for the two financial years ending 31 December 2009 and 31 December 2010 respectively.

Looking ahead, the Group will continue to allocate more resources to growing its newly acquired tea business, which is expected to become its new growth driver. The Group will also continue to explore other profitable business opportunities, including opportunities in the food and beverages sector in the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 September 2009, the Group had current assets of HK\$130,526,000 (31 March 2009: HK\$30,175,000) and cash and bank balances of HK\$65,727,000 (31 March 2009: HK\$5,599,000). The Group's current liabilities as at 30 September 2009 was HK\$37,939,000 (31 March 2009: HK\$24,667,000).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

As at 30 September 2009, total equity was HK\$222,441,000 (31 March 2009: HK\$49,579,000). The Group had convertible bonds and interest-bearing bank and other borrowings of HK\$85,772,000 as at 30 September 2009 (31 March 2009: HK\$20,451,000). The gearing ratio as at 30 September 2009, being the ratio of total liabilities to total equity, was 57.4% (31 March 2009: 74.8%).

EMPLOYEES

As at 30 September 2009, the Group had 263 employees (31 March 2009: 206 employees).

The remuneration policy and package for the Group's employees are reviewed and approved by the board of Directors (the "Board") on a periodical basis. The Group remunerates its employees based on industry practice and performance of the Group and individual employees. The Group also makes available a share option scheme and offers discretionary bonuses to its employees.

CONTINGENT LIABILITIES

As at 30 September 2009, the Company provided a guarantee to a bank in connection with the banking facilities of HK\$6,000,000 (31 March 2009: HK\$6,000,000) granted to the Company's subsidiary.

EXCHANGE RISK

The Group's revenues and costs are mainly denominated in Hong Kong dollars and Renminbi. Since the Hong Kong dollar remains pegged to the US dollars and Renminbi has been pegged to a basket of currencies, the Group does not foresee substantial risks from exposure to US dollar and Renminbi in this regard.

PLEDGE OF THE GROUP'S ASSETS

As at 30 September 2009, the Group's bank deposits of approximately HK\$375,000 (31 March 2009: HK\$375,000) and leasehold land and buildings with an aggregate net book value of approximately HK\$27,838,000 (31 March 2009: HK\$28,428,000) were pledged to secure banking facilities granted to the Group.

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

As at 30 September 2009, the interests of the Directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

(A) LONG POSITION IN ORDINARY SHARES OF THE COMPANY

Name of director	Nature of interests	Number of ordinary shares held/interested	Percentage [#] of the Company's issued share capital
Mr. Chiu Ka Leung	Beneficial owner	627,244,500	55.21%
Ms. Yeh Shu Ping	Beneficial owner	43,995,500	3.87%
Mr. Jiao Shaoliang	Beneficial owner	770,000	0.06%
Mr. Lu Pingguo	Beneficial owner	10,000,000	0.88%

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

(Continued)

(B) LONG POSITION IN UNDERLYING SHARES OF THE COMPANY (PHYSICALLY SETTLED UNLISTED EQUITY DERIVATIVES) – SHARE OPTIONS

Name of director	Nature of interests	Number of underlying ordinary shares in respect of options granted	Percentage# of underlying shares over the Company's issued share capital
Mr. Jiao Shaoliang	Beneficial owner	330,000	0.02%
Ms. Yeh Shu Ping	Beneficial owner	4,000,000	0.35%
Mr. Lu Pingguo	Beneficial owner	4,000,000	0.35%

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

(C) LONG POSITION IN UNDERLYING SHARES OF THE COMPANY (PHYSICALLY SETTLED UNLISTED EQUITY DERIVATIVES) – CONVERTIBLE BONDS

Name of director	Nature of interests	Number of underlying ordinary shares in respect of the convertible bonds issued	Percentage# of underlying shares over the Company's issued share capital
Mr. Chiu Ka Leung	Interest held by controlled corporation	200,000,000	17.60%

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

(Continued)

(C) LONG POSITION IN UNDERLYING SHARES OF THE COMPANY (PHYSICALLY SETTLED UNLISTED EQUITY DERIVATIVES) – CONVERTIBLE BONDS *(Continued)*

Note: Mr. Chiu Ka Leung was deemed to be interested in these convertible bonds of an aggregate principal amount of HK\$60,000,000, which may be converted into 200,000,000 ordinary shares of the Company upon exercise of the conversion rights attaching thereto at an initial conversion price of HK\$0.3 per share. These convertible bonds were held by Longrun Tea Asset Management Company Ltd., which was a wholly-owned subsidiary of Longrun Tea Investment Company Limited, which in turn was a controlled corporation of Mr. Chiu pursuant to the SFO.

- # The percentage represents the number of ordinary shares/underlying shares interested divided by the number of the Company's issued shares as at 30 September 2009.

In addition to the above, as at 30 September 2009, Mr. Chiu Ka Leung held one ordinary share in each of Long Far Herbal Medicine Manufacturing (Hong Kong) Limited, International Health Association (HK) Limited, Long Far Health Products Limited and Hong Kong Health Journal Limited (in all cases in trust for Long Far Pharmaceutical (BVI) Limited and all of these companies are indirect wholly-owned subsidiaries of the Company) in a non-beneficial capacity, solely for the purpose of complying with the then minimum company membership requirement.

Save as disclosed above and in the section headed "Share options", as at 30 September 2009, none of the Directors or chief executive of the Company had registered an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange; nor had there been any grant or exercise of rights of such interests, during the six months ended 30 September 2009.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2009, the following interest of 5% or more of the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

(A) LONG POSITION IN ORDINARY SHARES OF THE COMPANY

Name	Nature of interests	Number of ordinary shares held/interested	Percentage [#] of the Company's issued share capital
Ms. Guo Jinxiu	Interest held by spouse	627,244,500 (Note 1)	55.21%
Rocket Capital Holdings Limited	Beneficial owner	60,000,000 (Note 2)	5.28%
Mr. Kenneth Huang	Interest held by controlled corporation	60,000,000 (Note 2)	5.28%

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

(B) LONG POSITION IN UNDERLYING SHARES OF THE COMPANY (PHYSICALLY SETTLED UNLISTED EQUITY DERIVATIVES) – CONVERTIBLE BONDS

Name	Nature of interests	Number of underlying ordinary shares in respect of the convertible bonds issued	Percentage [#] of underlying shares over the Company's issued share capital
Longrun Tea Asset Management Company Ltd.	Beneficial owner	200,000,000 (Note 3)	17.60%
Longrun Tea Investment Company Limited	Interest held by controlled corporation	200,000,000 (Note 3)	17.60%
Ms. Guo Jinxiu	Interest held by spouse	200,000,000 (Note 1)	17.60%
Rocket Capital Holdings Limited	Beneficial owner	100,000,000 (Note 2)	8.80%
Mr. Kenneth Huang	Interest held by controlled corporation	100,000,000 (Note 2)	8.80%

Notes:

1. By virtue of being the spouse of Mr. Chiu Ka Leung, Ms. Guo Jinxiu was deemed to be interested in these ordinary shares and convertible bonds, which have been disclosed as Mr. Chiu's interests in the above section headed "Directors' and chief executive's interests and short positions in shares and underlying shares".

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

(B) LONG POSITION IN UNDERLYING SHARES OF THE COMPANY (PHYSICALLY SETTLED UNLISTED EQUITY DERIVATIVES) – CONVERTIBLE BONDS *(Continued)*

Notes: *(Continued)*

2. Mr. Kenneth Huang was deemed to be interested in these 60,000,000 ordinary shares and the convertible bonds of an aggregate principal amount of HK\$30,000,000, which may be converted into 100,000,000 ordinary shares of the Company upon exercise of the conversion rights attaching thereto at an initial conversion price of HK\$0.3 per share. These shares and convertible bonds were held by Rocket Capital Holdings Limited, a controlled corporation of Mr. Huang pursuant to the SFO.
3. Longrun Tea Investment Company Limited was deemed to be interested in these convertible bonds of an aggregate principal amount of HK\$60,000,000, which may be converted into 200,000,000 ordinary shares of the Company upon exercise of the conversion rights attaching thereto at an initial conversion price of HK\$0.3 per share. These convertible bonds were held by Longrun Tea Asset Management Company Ltd., which was a wholly-owned subsidiary of Longrun Tea Investment Company Limited, which in turn was a controlled corporation of Mr. Chiu pursuant to the SFO. Such interest has been disclosed as Mr. Chiu's interest in the above section headed "Directors' and chief executive's interests and short positions in shares and underlying shares".

The percentage represents the number of ordinary shares/underlying shares interested divided by the number of the Company's issued shares as at 30 September 2009.

Save as disclosed above, as at 30 September 2009, no person, other than the Directors whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register of the Company required to be kept pursuant to Section 336 of the SFO.

SHARE OPTIONS

(A) SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option scheme include the Directors, including independent non-executive Directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group and the holders of securities of the Group. The share option scheme became effective on 5 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

SHARE OPTIONS *(Continued)*

(A) SHARE OPTION SCHEME *(Continued)*

Details of movements of the share options granted under the share option scheme during the period under review were as follows:

Name or category of option holder	Number of share options				Outstanding at 30 September 2009	Date of grant of share options	Exercise period of share options	Exercise price per share
	Outstanding at 1 April 2009	Granted during the period	Exercised during the period (Note 1)	Lapsed/ cancelled during the period				
Mr. Jiao Shaoliang, Executive Director	1,100,000	-	(770,000)	-	330,000	9.9.2002	See note 2 below	HK\$0.375
Employees working under continuous contracts - in aggregate	3,200,000	-	(2,240,000)	-	960,000	9.9.2002	See note 2 below	HK\$0.375
Total	4,300,000	-	(3,010,000)	-	1,290,000			

Notes:

1. The weighted average closing price of shares immediately before the dates on which the options were exercised was HK\$0.42.
2. The exercise period is 9 years from 9 September 2003 to 8 September 2012 (a "Year" shall mean the period from 9 September to 8 September of the next year) provided that subject to the option that the grantee is entitled to exercise but has not yet exercised and the shares of the Company that may be subscribed by the grantee in respect of such unexercised options in the previous relevant Year(s), no more than 10% of the total number of shares under the options granted (the "Total Number") may be subscribed in each Year; that the remaining 10% of the Total Number may be subscribed at any time during the period commencing on 9 September 2007 to 8 September 2012; that where any part of the option has not been exercised during the relevant Year(s), the part of the option which the grantee is entitled to exercise but has not yet exercised may be carried forward and that no option can be exercised after 8 September 2012.

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

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

SHARE OPTIONS *(Continued)*

(B) OPTION AGREEMENTS

On 17 May 2009, two Directors and two other employees of the Company entered into option agreements with the Company, pursuant to which the Company agreed to grant to each of them an option to subscribe for shares of the Company subject to fulfillment of the conditions under the option agreements. The options were subsequently granted on 23 July 2009.

Details of movements of the options granted pursuant to the above option agreements during the period under review were as follows:

Name or category of option holder	Number of options				Outstanding at 30 September 2009	Date of grant of options	Exercise period of options (Note 3)	Exercise price per share
	Outstanding at 1 April 2009	Granted during the period (Note 1)	Exercised during the period (Note 2)	Lapsed/ cancelled during the period				
Ms. Yeh Shu Ping, Executive Director	-	7,500,000	(6,000,000)	-	1,500,000	23.7.2009	23.7.2009 to 23.7.2014	HK\$0.4
	-	2,500,000	-	-	2,500,000	23.7.2009	23.1.2010 to 23.7.2014	HK\$0.4
	-	10,000,000	(6,000,000)	-	4,000,000			
Mr. Lu Pingguo, Executive Director	-	10,500,000	(10,000,000)	-	500,000	23.7.2009	23.7.2009 to 23.7.2014	HK\$0.4
	-	3,500,000	-	-	3,500,000	23.7.2009	23.1.2010 to 23.7.2014	HK\$0.4
	-	14,000,000	(10,000,000)	-	4,000,000			
Employees working under continuous contracts - in aggregate	-	19,500,000	(17,000,000)	-	2,500,000	23.7.2009	23.7.2009 to 23.7.2014	HK\$0.4
	-	6,500,000	-	-	6,500,000	23.7.2009	23.1.2010 to 23.7.2014	HK\$0.4
	-	26,000,000	(17,000,000)	-	9,000,000			
Total	-	50,000,000	(33,000,000)	-	17,000,000			

SHARE OPTIONS *(Continued)*

(B) OPTION AGREEMENTS *(Continued)*

Notes:

1. The closing price of the Company's shares immediately before the date of grant was HK\$1.37. Details of the fair value of these options were set out in note 15 under the "Notes to interim financial information" in this interim report.
2. The weighted average closing price of shares immediately before the dates on which the options were exercised was HK\$1.04.
3. The vesting period of the options is from the date of grant until the commencement of the exercise period.
4. The number and/or exercise price of the options may be subject to adjustment in the case of rights or bonus issues, or other changes in the Company's share capital.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period under review.

AUDIT COMMITTEE

The audit committee of the Company, comprising the Company's three independent non-executive Directors, has reviewed with management the unaudited consolidated interim financial statements for the six months ended 30 September 2009, including accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters.

CORPORATE GOVERNANCE

The Company recognises the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the shareholders as a whole. The Board is of the view that the Company has met the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange, except for the following deviations:

CODE PROVISION A.4.2

This code provision stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Pursuant to the aforesaid provision of the CG Code, Ms. Yeh Shu Ping and Mr. Lam Siu Hung retired by rotation at the annual general meeting of the Company held on 28 August 2009 (the “2009 AGM”). Besides, Mr. Lu Pingguo, who has been appointed by the Board as a Director with effect from 1 February 2009, also retired at the 2009 AGM instead of the first general meeting of the Company after his appointment, held on 14 July 2009. Such arrangement, deviating from the code provision A.4.2 of the CG Code, was made as the Directors considered that the dates of the two general meetings were close and the retirement and re-election of all the three Directors at one general meeting, i.e. at the 2009 AGM, could provide a clearer picture to the Company’s shareholders.

CODE PROVISION E.1.2

This code provision stipulates that the chairman of the independent board committee (if any) should be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders’ approval. At the Company’s extraordinary general meeting held on 14 July 2009 for approving the major and connected transaction, the possible continuing connected transaction, the subscription and issue of subscription shares and convertible bonds and the grant of share options (details of such transactions were set out in the Company’s circular dated 26 June 2009), the independent board committee members were not present as they had other business engagements or were not in Hong Kong. The chairman of the meeting has read in the meeting the affirmative recommendation of the independent board committee on these transactions for independent shareholders’ consideration, and the company secretary and other senior management were arranged to answer questions from the independent shareholders at that meeting. No question was raised by any shareholders during such general meeting.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Code") on terms no less exacting than the required standard contained in the Model Code. All Directors have confirmed, following specific enquiries by the Company, that they have fully complied with the required standard set out in the Model Code and the Code throughout the period under review.

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

The Company has established written guidelines for the relevant employees of the Company (the "Relevant Employees") in respect of their dealings in the securities of the Company (the "Written Guidelines") on terms no less exacting than the required standard set out in the Model Code. For this purpose, "Relevant Employee" includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company during the six months ended 30 September 2009.

By Order of the Board
Chiu Ka Leung
Chairman

Hong Kong, 22 December 2009