



Interim Report 2010



**LongRun**  
**龍潤**

**LONGRUN TEA GROUP COMPANY LIMITED**

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



## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Dr. 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>
Dr. 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

Dr. 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 Hongkong 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 & STOCK CODE

[www.longruntea.com](http://www.longruntea.com)  
2898



The directors (the "Directors") of Longrun Tea Group Company Limited (the "Company") are pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2010, together with the comparative figures for the corresponding period of 2009, as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2010

		For the six months ended 30 September	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
	Notes		
REVENUE	2	<b>195,567</b>	46,045
Cost of sales		<b>(117,479)</b>	(24,975)
Gross profit		<b>78,088</b>	21,070
Other income and gains	3	<b>168</b>	2,429
Selling and distribution costs		<b>(15,474)</b>	(3,788)
Share option expenses	15	–	(39,120)
Administrative expenses		<b>(16,249)</b>	(10,698)
Other expenses		<b>(23)</b>	(23)
Finance costs	4	<b>(246)</b>	(756)
PROFIT/(LOSS) BEFORE TAX	5	<b>46,264</b>	(30,886)
Income tax expense	6	<b>(13,116)</b>	(2,764)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY		<b>33,148</b>	(33,650)
EARNING/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
– Basic		<b>HK2.31 cents</b>	(HK4.21 cents)
– Diluted		<b>HK2.30 cents</b>	(HK4.21 cents)



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2010

	For the six months ended	
	30 September 2010 (Unaudited) <i>HK\$'000</i>	2009 (Unaudited) <i>HK\$'000</i>
PROFIT/(LOSS) FOR THE PERIOD	<b>33,148</b>	(33,650)
OTHER COMPREHENSIVE LOSS		
Exchange differences on translation of foreign operations	<b>(14)</b>	(186)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<b>(14)</b>	(186)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<b>33,134</b>	(33,836)
Attributable to:		
Ordinary equity holders of the Company	<b>33,134</b>	(33,836)



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2010

		<b>30 September 2010 (Unaudited) HK\$'000</b>	31 March 2010 (Restated) HK\$'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	<b>56,443</b>	50,704
Prepaid land lease payments	10	<b>5,481</b>	5,549
Deposits for acquisition of items of property, plant and equipment		<b>918</b>	709
Intangible assets		<b>42,161</b>	44,602
Goodwill	16	<b>116,920</b>	116,920
Deferred tax assets		<b>240</b>	240
<b>Total non-current assets</b>		<b>222,163</b>	218,724
<b>CURRENT ASSETS</b>			
Inventories		<b>23,828</b>	11,628
Trade receivables	11	<b>124,535</b>	66,446
Prepayments, deposits and other receivables	12	<b>14,045</b>	20,269
Financial assets at fair value through profit or loss		<b>288</b>	352
Tax recoverable		–	49
Pledged deposits		<b>375</b>	375
Cash and cash equivalents		<b>24,125</b>	44,262
<b>Total current assets</b>		<b>187,196</b>	143,381
<b>CURRENT LIABILITIES</b>			
Trade payables	13	<b>11,659</b>	4,529
Other payables and accruals		<b>18,333</b>	14,655
Interest-bearing bank borrowings		<b>8,312</b>	8,284
Due to related companies	20(b)(i)	<b>2,963</b>	4,115
Due to directors	20(b)(ii)	<b>1,002</b>	955
Tax payable		<b>10,826</b>	4,664
<b>Total current liabilities</b>		<b>53,095</b>	37,202



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

30 September 2010

	Notes	30 September 2010 (Unaudited) <i>HK\$'000</i>	31 March 2010 (Restated) <i>HK\$'000</i>
NET CURRENT ASSETS		<b>134,101</b>	106,179
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>356,264</b>	324,903
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		<b>8,777</b>	9,940
Deferred tax liabilities		<b>10,711</b>	11,321
Total non-current liabilities		<b>19,488</b>	21,261
Net assets		<b>336,776</b>	303,642
EQUITY			
Issued capital	14	<b>71,801</b>	71,801
Reserves		<b>264,975</b>	231,841
Total equity		<b>336,776</b>	303,642



## CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2010

	Issued capital (Unaudited) <i>HK\$'000</i>	Share premium account (Unaudited) <i>HK\$'000</i>	Contributed surplus (Unaudited) <i>HK\$'000</i>	Equity component of convertible bonds (Unaudited) <i>HK\$'000</i>	Employee share-based compensation reserve (Unaudited) <i>HK\$'000</i>	Exchange fluctuation reserve (Unaudited) <i>HK\$'000</i>	Retained profits/(accumulated loss) (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1 April 2010	71,801	235,380	300	-	16,321	6,932	(27,092)	303,642
Total comprehensive income/(loss) for the period	-	-	-	-	-	(14)	33,148	33,134
At 30 September 2010	71,801	235,380	300	-	16,321	6,918	6,056	336,776
At 1 April 2009	30,000	8,720	300	-	-	7,037	3,522	49,579
Total comprehensive loss for the period	-	-	-	-	-	(186)	(33,650)	(33,836)
Issue of convertible bonds	-	-	-	28,250	-	-	-	28,250
Exercise of share options	1,800	43,218	-	-	(30,690)	-	-	14,328
Issue of subscription shares	5,000	20,000	-	-	-	-	-	25,000
Issue of acquisition shares	20,000	80,000	-	-	-	-	-	100,000
Equity-settled share option arrangement	-	-	-	-	39,120	-	-	39,120
At 30 September 2009	56,800	151,938	300	28,250	8,430	6,851	(30,128)	222,441



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2010

	For the six months ended 30 September	
	2010 (Unaudited) <i>HK\$'000</i>	2009 (Unaudited) <i>HK\$'000</i>
NET CASH FLOWS USED IN OPERATING ACTIVITIES	<b>(10,000)</b>	(71,365)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	<b>(8,742)</b>	63,458
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	<b>(1,381)</b>	68,221
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>(20,123)</b>	60,314
Cash and cash equivalents at beginning of period	<b>44,262</b>	5,599
Effect of foreign exchange rate changes, net	<b>(14)</b>	(186)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>24,125</b>	65,727
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>24,125</b>	65,727





## NOTES TO INTERIM FINANCIAL INFORMATION

30 September 2010

### 1. ACCOUNTING POLICIES

The condensed interim financial information for the six months ended 30 September 2010 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 2010, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect Longrun Tea Group Company Limited (the "Company") and its subsidiaries (collectively the "Group") and are adopted for the first time for the current period's financial information.

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 32 Amendment	<i>Amendment to HKAS 32 Financial Instruments: Presentation – Classification of Rights Issues</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 14 Amendments	<i>Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
HK Interpretation 5	<i>Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause</i>

Apart from the above, the Group has also adopted *Improvements to HKFRSs*\* issued by the Hong Kong Institute of Certified Public Accountants which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wordings.

\* Improvements to HKFRSs contain amendments to HKFRS 2, HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAS 38, HKAS 39, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16.



## 1. ACCOUNTING POLICIES *(Continued)*

The adoption of these new interpretations and amendments has had no significant financial effect on these unaudited condensed consolidated interim financial information and there have been no significant changes to the accounting policies applied in the unaudited condensed consolidated interim financial information, except for the followings:

### **HKAS 17 Amendments *Leases – Classification of Leases of Land and Building***

HKAS 17 Amendments delete specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Prepaid land lease payment" and amortised over the lease term. HKAS 17 Amendments have been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance lease retrospectively. As a result of the reassessment, the Group has reclassified the leasehold land in Hong Kong from operating lease to finance lease.

The accounting for land interest classified as finance lease is as below:

- If the property interest is held for own use, that land interest is accounted for as property and equipment and is depreciated from the land interest available for its intended use over the shorter of the useful life of asset and the lease term.
- If the property interest is held to earn rentals and/or for capital appreciation, that land is accounted for as investment property and carried at fair value.

Accordingly, the comparative amounts for the six months ended 30 September 2009 and as at 31 March 2010 have been restated and the effects of the adoption of this amendment are as below:

	31 March 2010 (Restated) <i>HK\$'000</i>
<hr/>	
Increase in property, plant and equipment	16,396
Decrease in current portion of prepaid land lease payments included in prepayments, deposits and other receivables	(443)
Decrease in prepaid land lease payments	(15,953)
	Six months ended 30 September 2009 (Unaudited) <i>HK\$'000</i>
<hr/>	
Decrease in recognition of prepaid land lease payments	(221)
Increase in depreciation	221



## 2. OPERATING SEGMENT INFORMATION

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

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, dividend income, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

### (a) Business segment

	Six months ended 30 September					
	Manufacturing and distribution of pharmaceutical products		Distribution of tea and other food products		Total	
	2010	2009	2010	2009	2010	2009
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Segment revenue:						
Sales to external customers	23,202	16,566	172,365	29,479	195,567	46,045
Other revenue	83	561	24	-	107	561
<b>Total</b>	<b>23,285</b>	<b>17,127</b>	<b>172,389</b>	<b>29,479</b>	<b>195,674</b>	<b>46,606</b>
<b>Segment results</b>	<b>4,334</b>	<b>1,145</b>	<b>52,794</b>	<b>10,769</b>	<b>57,128</b>	<b>11,914</b>
Reconciliation:						
Interest income					61	6
Dividend income and other unallocated gains					-	1,862
Share option expenses					-	(39,120)
Corporate and other unallocated expenses					(10,679)	(4,792)
Finance costs					(246)	(756)
<b>Profit/(loss) before tax</b>					<b>46,264</b>	<b>(30,886)</b>



2. OPERATING SEGMENT INFORMATION *(Continued)*

(b) Geographical information

Revenue from external customers:

	For the six months ended	
	30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<hr/>		
The People's Republic of China (the "PRC"), excluding Hong Kong	<b>185,725</b>	39,197
Hong Kong	<b>8,170</b>	6,502
Elsewhere in Asia	<b>1,672</b>	346
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	<b>195,567</b>	46,045
<hr/> <hr/>		

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

**Information about major customers**

Revenue of approximately HK\$20,935,000, HK\$20,202,000, HK\$20,139,000, HK\$20,051,000 and HK\$19,627,000, for the period ended 30 September 2010 were derived from sales to five major customers, including sales to a group of entities which are known to be under common control with these customers.

Revenue of approximately HK\$8,020,000, HK\$6,263,000, HK\$5,980,000, HK\$5,526,000 and HK\$4,724,000 for the period ended 30 September 2009 were derived from sales to five major customers, including sales to a group of entities which are known to be under common control with these customers.



### 3. OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2010 (Unaudited) <i>HK\$'000</i>	2009 (Unaudited) <i>HK\$'000</i>
<b>Other income</b>		
Interest income	61	6
Rental income	16	5
Others	91	556
	<b>168</b>	567
<b>Gains</b>		
Fair value gains on derivative financial instruments, net	-	1,862
	<b>168</b>	2,429

### 4. FINANCE COSTS

	For the six months ended 30 September	
	2010 (Unaudited) <i>HK\$'000</i>	2009 (Unaudited) <i>HK\$'000</i>
Interest on bank loans	246	238
Imputed interest on convertible bonds	-	518
	<b>246</b>	756



## 5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended	
	30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	117,040	24,900
Depreciation	2,892	1,756
Recognition of prepaid land lease payments	67	63
Amortisation of intangible assets	2,441	–
Write-down of inventories to net realisable value*	–	54
Gain on disposal of items of property, plant and equipment, net	(28)	–

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

## 6. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 September 2009: Nil). 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 periods ended 30 September 2010 and 2009 based on the rate prevailing in the jurisdictions in which the Group operates.

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 2010 (2009: Nil).



**8. EARNING/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY**

The calculation of basic earning/(loss) per share amounts is based on the profit/(loss) for the period attributable to ordinary equity holders of the Company of HK\$33,148,000 (six months ended 30 September 2009: loss of HK\$33,650,000) and the weighted average of 1,436,010,000 (six months ended 30 September 2009: 798,756,776) ordinary shares in issue during the period.

The calculation of diluted earning per share amount is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$33,148,000. The weighted average number of ordinary shares used in the calculation is the 1,436,010,000 ordinary shares in issue during the period, as used in the basic earning per share calculation, and the weighted average of 6,424,721 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential shares into shares.

No adjustment has been made to the basic loss per share amount presented for the period ended 30 September 2009 in respect of a dilution as the impact of the share options and convertible bonds outstanding, where applicable, during this period had an anti-dilutive effect on the basic loss per share amount presented.

**9. PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group acquired property, plant and equipment of HK\$8,563,000 (six months ended 30 September 2009: HK\$81,000).

**10. PREPAID LAND LEASE PAYMENTS**

	(Unaudited) HK\$'000
Carrying amount at 1 April 2010	
as originally stated	22,079
adjustment on adoption of amendment to HKAS 17	(16,396)
as restated	5,683
Recognised during the period	(67)
Carrying amount at 30 September 2010	5,616
Current portion included in prepayments, deposits and other receivables	(135)
Non-current portion	5,481



## 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 end of the reporting period, based on payment due date, that are not considered to be impaired, is as follows:

	<b>30 September 2010 (Unaudited) HK\$'000</b>	31 March 2010 (Audited) HK\$'000
Current	<b>117,765</b>	60,211
Within 1 to 3 months overdue	<b>5,461</b>	4,120
More than 3 months overdue but less than 12 months overdue	<b>1,309</b>	1,700
Over 12 months overdue	–	415
	<b>124,535</b>	66,446

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

## 12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>30 September 2010 (Unaudited) HK\$'000</b>	31 March 2010 (Restated) HK\$'000
Prepayments	<b>5,630</b>	15,805
Deposits and other receivables	<b>8,415</b>	4,464
	<b>14,045</b>	20,269

Included in the Group's prepayments, deposits and other receivables is an other receivable of HK\$2,776,000 due from 雲南龍潤茶業發展有限公司 Yunnan Longrun Tea Development Company Limited ("YLRT") (31 March 2010: HK\$831,000), which is unsecured, interest free and repayable on demand.

Included in the Group's prepayments, deposits and other receivables as at 31 March 2010 is a prepayment for purchases of tea products of HK\$10,789,000 to 鳳慶龍潤茶業有限公司 Fengqing Longrun Tea Company Limited.





### 13. TRADE PAYABLES

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

	<b>30 September 2010 (Unaudited) HK\$'000</b>	31 March 2010 (Audited) HK\$'000
Current	<b>7,206</b>	–
Within 1 to 3 months overdue	<b>3,084</b>	3,942
More than 3 months overdue		
but less than 12 months overdue	<b>998</b>	319
Over 12 months overdue	<b>371</b>	268
	<b>11,659</b>	4,529

Included in the Group's trade payables are trade payables of HK\$6,658,000 due to subsidiaries of 雲南龍潤茶業集團有限公司 (Yunnan Longrun Tea Group Limited) ("LRTG") (31 March 2010: HK\$1,633,000). LRTG is beneficially owned as to 90% and 10% by Dr. 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.

### 14. SHARE CAPITAL

	<b>30 September 2010 (Unaudited) HK\$'000</b>	31 March 2010 (Audited) HK\$'000
Authorised		
5,000,000,000 ordinary shares of HK\$0.05 each	<b>250,000</b>	250,000
Issued and fully paid		
1,436,010,000 ordinary shares of HK\$0.05 each	<b>71,801</b>	71,801

#### Share options

Details of the Company's share option scheme and the share options issued are included in note 15 to the interim financial information.



## 15. EQUITY COMPENSATION PLANS

### (a) Share Option Scheme

The Company operates a share option scheme (the "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 Company's 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.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 60,000,000, representing 10% of the shares of the Company in issue as at the date of listing of the Company. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

A grant of share options to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted, to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK\$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer upon payment of a nominal consideration of HK\$10 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options subject to the provisions for early termination as set out in the Share Option Scheme. Unless otherwise determined by the directors at their sole discretion, there is no requirement of a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised.

The exercise price of the share options shall be the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.



**15. EQUITY COMPENSATION PLANS** (Continued)

**(a) Share Option Scheme** (Continued)

The following share options were outstanding under the Share Option Scheme during the periods:

	2010		2009	
	Weighted average exercise price <i>HK\$ per share</i>	Number of options	Weighted average exercise price <i>HK\$ per share</i>	Number of options
At 1 April	0.375	1,290,000	0.375	4,300,000
Exercised during the period	-	-	0.375	(3,010,000)
At 30 September	0.375	1,290,000	0.375	1,290,000

No share options were granted, exercised or lapsed during the current period.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting periods are as follows:

30 September 2010		
Number of options	Exercise price* <i>HK\$ per share</i>	Exercise period**
330,000	0.375	9-9-2003 to 8-9-2012
960,000	0.375	9-9-2003 to 8-9-2012
1,290,000		
30 September 2009		
Number of options	Exercise price* <i>HK\$ per share</i>	Exercise period**
330,000	0.375	9-9-2003 to 8-9-2012
960,000	0.375	9-9-2003 to 8-9-2012
1,290,000		



## 15. EQUITY COMPENSATION PLANS *(Continued)*

### (a) Share Option Scheme *(Continued)*

- \* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.
- \*\* The exercise period is nine 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 (i) subject to the options 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; (ii) 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; (iii) 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 (iv) 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 exercise period.

### (b) Option agreements

On 17 May 2009, the Company entered into option agreements with two directors of the Company and two other employees of the Group, pursuant to which the Company agreed to grant each of them an option to subscribe for shares of the Company in the consideration of HK\$1 each subject to fulfillment of the conditions under the option agreements. The grant of the options is part of the incentive offered to the grantees for their past and forthcoming contribution to the diversification of the business of the Group to the food and beverage sector and the supervision of the newly acquired tea and other food products business. A total of 50,000,000 share options were subsequently granted on 23 July 2009.

The share options have an exercise price of HK\$0.4 per share and the market price of the Company's share at the date of grant was HK\$1.33 per share. The fair value of the 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 from the grant date while the remaining 25% are exercisable from the date falling six months from the grant date.



**15. EQUITY COMPENSATION PLANS** (Continued)

**(b) Option agreements** (Continued)

The following share options were outstanding under the option agreements during the periods:

	2010		2009	
	Weighted average exercise price <i>HK\$ per share</i>	Number of options	Weighted average exercise price <i>HK\$ per share</i>	Number of options
At 1 April	0.4	17,000,000	-	-
Granted during the period	-	-	0.4	50,000,000
Exercised during the period	-	- <sup>#</sup>	0.4	(33,000,000)
At 30 September	0.4	17,000,000	0.4	17,000,000

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting periods are as follows:

30 September 2010 Number of options	Exercise price* <i>HK\$ per share</i>	Exercise period**
1,500,000	0.4	23-7-2009 to 23-7-2014
2,500,000	0.4	23-1-2010 to 23-7-2014
500,000	0.4	23-7-2009 to 23-7-2014
3,500,000	0.4	23-1-2010 to 23-7-2014
2,250,000	0.4	23-7-2009 to 23-7-2014
5,750,000	0.4	23-1-2010 to 23-7-2014
250,000	0.4	23-7-2009 to 23-7-2014
750,000	0.4	23-1-2010 to 23-7-2014
17,000,000		



15. EQUITY COMPENSATION PLANS (Continued)

(b) Option agreements (Continued)

30 September 2009 Number of options	Exercise price* HK\$ per share	Exercise period**
1,500,000	0.4	23-7-2009 to 23-7-2014
2,500,000	0.4	23-1-2010 to 23-7-2014
500,000	0.4	23-7-2009 to 23-7-2014
3,500,000	0.4	23-1-2010 to 23-7-2014
2,250,000	0.4	23-7-2009 to 23-7-2014
5,750,000	0.4	23-1-2010 to 23-7-2014
250,000	0.4	23-7-2009 to 23-7-2014
750,000	0.4	23-1-2010 to 23-7-2014
<u>17,000,000</u>		

\* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

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

There is no share option expense recognised by the Group during the period (six months ended 30 September 2009: HK\$39,120,000) in respect of share options granted in the prior period.

# On 4 October 2010, an aggregate of 5,000,000 shares were allotted attributable to the exercise of 5,000,000 share options on 27 September 2010, resulting in the issue of new share capital of approximately HK\$250,000 and share premium of approximately HK\$1,750,000.



## 16. BUSINESS COMBINATION

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

On 23 July 2009, the Group acquired from Longrun Tea Asset Management Company Limited ("LTAMCL") for a consideration of HK\$160,000,000, the entire share capital of Longrun Tea Wealth Creation Company Limited 龍潤茶業創富有限公司, the holding company of a group of companies comprising Longrun Tea Trading Company Limited ("LRTC") and 雲南龍潤商貿有限公司 Yunnan Longrun Business and Trade Company Limited ("YNLR") (collectively the "Longrun Group"), which are principally engaged in the distribution of tea and food products and a shareholder's loan of HK\$10,000,000. LTAMCL is a company which was beneficially owned as to 90% and 10% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively. The consideration was satisfied by the issue of 400,000,000 shares in the Company and the convertible bonds. The acquisition has been accounted for using the purchase method of accounting.

The fair values of the identifiable assets and liabilities of the Longrun Group as at the date of acquisition 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	(18)
Goodwill arising on acquisition	116,920	
	152,795	
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)	
	152,795	



**16. BUSINESS COMBINATION** *(Continued)*

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

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the subsidiaries are as follows:

	<i>HK\$'000</i>
Cash and bank balances acquired	66,334
Transaction costs directly attributable to the acquisition	<u>(2,795)</u>
Net inflow of cash and cash equivalents in respect of the acquisition of the subsidiaries	<u><u>63,539</u></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 convertible bonds with a nominal value of HK\$60,000,000 and costs of HK\$2,795,000 directly attributable to the acquisition and debt assigned to the Group of HK\$10,000,000.

Since their 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 for the period ended 30 September 2009. If the combination had taken place at the beginning of the prior period, the revenue of the Group and the loss of the Group for the prior 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.





## 17. OPERATING LEASES COMMITMENTS

### (a) As lessor

The Group leases part of its factory under operating lease agreements, with leases negotiated for terms ranging from one to two years. The terms of the leases generally also require the tenants to pay security deposits and provide for period rent adjustment according to the then prevailing market condition.

At 30 September 2010, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	<b>30 September 2010 (Unaudited) HK\$'000</b>	31 March 2010 (Audited) HK\$'000
Within one year	<b>19</b>	14
In the second to fifth years, inclusive	<b>5</b>	–
	<b>24</b>	14

### (b) As lessee

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

At 30 September 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 September 2010 (Unaudited) HK\$'000</b>	31 March 2010 (Audited) HK\$'000
Within one year	<b>4,488</b>	4,828
In the second to fifth years, inclusive	<b>9,821</b>	11,352
After five years	–	128
	<b>14,309</b>	16,308



## 18. COMMITMENTS

In addition to the operating lease commitments detailed in note 17 above, the Group had the following commitments at the end of the reporting period:

	<b>30 September 2010 (Unaudited) HK\$'000</b>	31 March 2010 (Audited) HK\$'000
Contracted, but not provided for:		
Leasehold improvements	–	3,550

## 19. CONTINGENT LIABILITIES

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

## 20. RELATED PARTY TRANSACTIONS

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

Name of related parties	Notes	<b>For the six months ended 30 September</b>	
		<b>2010 (Unaudited) HK\$'000</b>	2009 (Unaudited) HK\$'000
Purchase of tea products from:			
Changning Longrun Tea Company Limited (昌寧縣龍潤茶業有限公司)	(ii), (iii)	<b>26,632</b>	5,271
Fengqing Longrun Tea Company Limited (鳳慶龍潤茶業有限公司)	(ii), (iii)	<b>28,320</b>	3,212
Yunxian Tialong Eco-Tea Company Limited (雲縣天龍生態茶業有限責任公司)	(ii), (iii)	<b>17,095</b>	–
Yunnan Longrun Tea Development Company Limited (雲南龍潤茶業發展有限公司)	(ii), (iii)	<b>23,267</b>	–
Yunnan Longrun Tea Group Limited (雲南龍潤茶業集團有限公司) (i.e. LRTG)	(i), (iii)	<b>16,779</b>	–



## 20. RELATED PARTY TRANSACTIONS (Continued)

### (a) Notes:

- (i) LRTG is beneficially owned as to 90% and 10% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.
- (ii) The companies are wholly owned subsidiaries of LRTG.
- (iii) The transactions were conducted at rates mutually agreed between the relevant parties.

The above transactions entered into by the Group during the periods ended 30 September 2009 and 2010 also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

### (b) Outstanding balances with related parties

In addition to those balances disclosed elsewhere in these financial statements, the Group had the following balances with related parties at the end of the reporting period:

- (i) The amounts due to related parties, 雲南龍潤藥業有限公司 (Yunnan Long Run Pharmaceuticals Company Limited ("YLRP")) and YLRT are unsecured, interest-free and have no fixed terms of repayment. YLRP is a wholly owned subsidiary of Long Run Pharmaceuticals Group Limited, which is beneficially owned as to 90% and 10% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.
- (ii) The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

### (c) Compensation of key management personnel of the Group

	For the six months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	3,070	3,096
Post-retirement benefits	42	42
Equity-settled share option expense	–	30,690
	<b>3,112</b>	<b>33,828</b>

**21. PLEDGE OF ASSETS**

At 30 September 2010, the Group's bank deposits of approximately HK\$375,000 (31 March 2010: HK\$375,000) and land and buildings with a carrying amount of approximately HK\$26,658,000 (31 March 2010: HK\$27,248,000) were pledged to secure banking facilities granted to the Group.

**22. EVENT AFTER THE REPORTING PERIOD**

On 6 September 2010, a subsidiary of the Company, YNLR, entered into an acquisition and cooperation agreement ("Acquisition and Cooperation Agreement") with certain independent third parties (the "Vendors") in relation to the acquisition and operation of "茶物語 – Tea Story" trendy teahouses in the PRC at a cash consideration of RMB4,500,000 (equivalent to approximately HK\$5,148,000). Pursuant to the Acquisition and Cooperation Agreement, YNLR and the Vendors agreed to establish a company to be named 雲南龍潤餐飲有限公司 in the PRC. The new company will be owned as to 70.9% by YNLR and as to 29.1% by the Vendors. The registered capital of the new company is RMB2,000,000 (equivalent to approximately HK\$2,288,000). As at the end of the reporting period, the company named 雲南龍潤餐飲有限公司 has been established in the PRC and YNLR and the Vendors have paid up their capital contribution in cash in accordance with their respective shareholding.

Subsequent to the end of the reporting period, the Group has paid RMB4,500,000 (equivalent to approximately HK\$5,148,000) to the Vendors, and the transfer of brand name "茶物語 – Tea Story" and of not less than 350 franchisees operating "茶物語 – Tea Story" trendy teahouse to the new company have been completed in October 2010.

**23. APPROVAL OF THE INTERIM FINANCIAL INFORMATION**

This interim financial information was approved and authorised for issue by the board of directors on 29 November 2010.



## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**ERNST & YOUNG**

**安永**

To the board of directors of  
Longrun Tea Group Company Limited

### INTRODUCTION

We have reviewed the interim financial information set out on pages 2 to 27 which comprises the condensed consolidated statement of financial position of Longrun Tea Group Company Limited as of 30 September 2010 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated summary statement of changes in equity and condensed consolidated statement of 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 ("HKICPA").

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 HKICPA. 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

29 November 2010



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL RESULTS

For the six months ended 30 September 2010, the Group reported substantial improvements in its financial results due to its diversification into the tea market in China. Turnover of the Group increased by 3.2 times to approximately HK\$195,567,000 (2009: HK\$46,045,000) whereas gross profit increased by 2.7 times to approximately HK\$78,088,000 (2009: HK\$21,070,000) when compared to the corresponding period last year. The Group recorded a profit attributable to ordinary equity holders of approximately HK\$33,148,000 for the period under review compared to a loss attributable to ordinary equity holders of approximately HK\$33,650,000 for the corresponding period last year. The surge in profit was mainly attributable to contributions derived from the Group's tea and other food products business during the period under review. Basic earnings per share were HK2.31 cents against a loss per share of HK4.21 cents in the corresponding period last year.

### BUSINESS REVIEW

#### Tea and Other Food Products Businesses

The Group completed the acquisition of the tea and other food products business in July 2009 and the Group's business restructuring and strategic emphasis on its tea business has begun to bear fruit. During the period under review, the Group focused on distributing tea and other food products under the well-established "Longrun" (龍潤) brand in the PRC market. The Group actively expanded its distribution network and customer base during the period. This strategy delivered significant growth to the Group's tea and other food products businesses, generating a revenue of HK\$172,365,000 which represented 88.1% of the Group's total turnover.

"Longrun Tea" (龍潤茶) is a premium brand considered to be among the "Top Ten Brands in Yunnan" (雲南的「十大品牌」), a major tea raising area. Yunnan Longrun Tea Group Limited (雲南龍潤茶業集團有限公司) was designated the authorised manufacturer of tea products for World Expo 2010 held in Shanghai, China. It has also been selected by Diaoyutai State Guesthouse (釣魚臺國賓館) as the appointed pu'erh tea manufacturer.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### BUSINESS REVIEW *(Continued)*

#### Tea and Other Food Products Businesses *(Continued)*

##### **First Mega Retail Outlet Targeting Tourists**

In July 2010, the Group opened its first mega retail outlet in Kunming. This mega retail outlet, located in the International Convention Centre (昆明國際會展中心), is of close proximity to the Kunming Wujia International Airport (昆明巫家壩國際機場). With a floor area of over 25,000 square feet and operating 24 hours a day, this mega retail outlet is designed to target both domestic and international tourists travelling to Yunnan Province. Sales derived from this mega outlet were very satisfactory and given the robust growth in tourism in Yunnan Province, prospects for this mega retail outlet are promising.

##### **Trendy Teahouse (茶物語 – Tea Story)**

In September 2010, the Group entered into an Acquisition and Cooperation Agreement for the acquisition and operation of “茶物語 – Tea Story” – a franchised operation of trendy teahouses in the PRC. The acquisition was completed in October 2010. Targeting mainly the younger generation, the principal products served in “茶物語 – Tea Story” include bubble tea, cocoa beverages, fruit drinks, shakes, slushies and Taiwanese snacks and light refreshments. Currently our “茶物語 – Tea Story” network comprised more than 360 franchised teahouses mainly located in Hunan, Yunnan, Guangdong and Zhejiang Provinces.

##### **First International Award**

To promote the unique traditional and modern Chinese tea culture to both domestic and international customers, the Group participated in the 2nd Hong Kong International Tea Fair organised by Hong Kong Trade Development Council in August 2010. The Tea Fair provided a solid platform with diverse audience for the Group’s tea products to enter the international marketplace. “Longrun”(龍潤) tea product also won “The Most Popular Tea Award – Aged Tea Category” at the Tea Fair.

##### **Healthcare and Pharmaceutical Business**

During the period under review, the business and operations of the Group’s healthcare and pharmaceutical products business continued to make a steady contribution. Revenue from this division was approximately HK\$23,202,000 (2009: HK\$16,566,000), accounting for about 11.9% (2009: 36.0%) of the Group’s total revenue. “Beauty and Healthy”(排毒美顏寶) remained as the Group’s major revenue contributor in this segment, accounting for 3.9% (2009: 12.7%) of the total turnover during the period.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### PROSPECTS

Looking ahead, the Group will continue to sharpen its competitive edge by expanding its distribution network and customer base for its tea business. Given Yunnan Province is one of the most popular tourist destinations in China, the Group will further leverage its unique location advantage to tap into the tourist related market in Yunnan Province.

The Group has been promoting the traditional tea drinking culture among the younger generation aiming to alter their traditional perception of Chinese tea tasting. The acquisition of “茶物語 – Tea Story” has provided us with a valuable opportunity to strengthen the Group’s presence in the trendy teahouse market sector, to reach the younger segment of China’s consumer market and to cross-sell different tea and food products in the teahouses.

In October 2010, the “Longrun”(龍潤) brand has been awarded the China Well-known Trademark (中國馳名商標) by the “Trademark Office of The State Administration for Industry & Commerce of the PRC”(中國國家工商行政管理局商標局). Such achievement represents high level recognition of the quality and popularity of the “Longrun”(龍潤) brand and its tea products in the PRC. The Group will leverage such enhanced awareness of “Longrun”(龍潤) brand to further expand its distribution network and customer base.

With many accomplishments in the first half year, the management remains optimistic about the Group’s performance for the rest of the year. The Group will continue to focus on its tea and other food products businesses and, at the same time, continue to explore and pursue potential mergers and acquisitions that can enlarge market share and boost its presence in the food and beverage sector.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 September 2010, the Group had current assets of HK\$187,196,000 (31 March 2010: HK\$143,381,000) and cash and bank balances of HK\$24,125,000 (31 March 2010: HK\$44,262,000). The Group’s current liabilities as at 30 September 2010 were HK\$53,095,000 (31 March 2010: HK\$37,202,000).

As at 30 September 2010, total equity was HK\$336,776,000 (31 March 2010: HK\$303,642,000). The Group had interest-bearing bank borrowings of HK\$17,089,000 as at 30 September 2010 (31 March 2010: HK\$18,224,000). The gearing ratio as at 30 September 2010, being the ratio of total liabilities to total equity, was 21.6% (31 March 2010: 19.3%).





## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **EMPLOYEES**

As at 30 September 2010, the Group had 345 employees (31 March 2010: 256 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 the Share Option Scheme and offers discretionary bonuses to its employees.

### **CONTINGENT LIABILITIES**

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

### **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 dollar 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 2010, the Group's bank deposits of approximately HK\$375,000 (31 March 2010: HK\$375,000) and leasehold land and buildings with an aggregate net book value of approximately HK\$26,658,000 (31 March 2010: HK\$27,248,000) 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 2010, 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

<b>Name of director</b>	<b>Nature of interests</b>	<b>Number of ordinary shares held/interested</b>	<b>Percentage<sup>+</sup> of the Company's issued share capital</b>
Dr. Chiu Ka Leung	Beneficial owner	832,964,500	58.00%
Ms. Yeh Shu Ping	Beneficial owner	43,995,500	3.06%
Mr. Jiao Shaoliang	Beneficial owner	770,000	0.05%
Dr. Lu Pingguo	Beneficial owner	10,000,000	0.69%



## 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	0.27%
Dr. Lu Pingguo	Beneficial owner	4,000,000	0.27%

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

\* The percentage represents the number of ordinary shares/underlying shares interested divided by the number of the Company's issued shares as at 30 September 2010.



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

*(Continued)*

In addition to the above, as at 30 September 2010, Dr. 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 2010, 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 2010.



## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2010, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### 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	832,964,500 (Note)	58.00%
徐永鋒	Beneficial owner	100,000,000	6.96%

Note: Ms. Guo Jinxiu was deemed to be interested in these shares through the interest of her spouse, Dr. Chiu Ka Leung, an executive director of the Company. Such interest of Dr. Chiu has been disclosed 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 interested divided by the number of the Company's issued shares as at 30 September 2010.

Save as disclosed above, as at 30 September 2010, no person, other than the directors of the Company, whose interests are set out in the section "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 required to be kept pursuant to Section 336 of the SFO.



## SHARE OPTIONS

### (A) SHARE OPTION SCHEME

As set out in note 15(a) to the interim financial information, the Company operates the Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Details of movements of the share options granted under the Share Option Scheme during the period under review are as follows:

Name or category of option holder	Number of share options				Outstanding at 30 September 2010	Date of grant of share options	Exercise period of share options	Exercise price per share
	Outstanding at 1 April 2010	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period				
Mr. Jiao Shaoliang, Executive Director	330,000	-	-	-	330,000	9.9.2002	See note 1 below	HK\$0.375
Employees working under continuous contracts – in aggregate	960,000	-	-	-	960,000	9.9.2002	See note 1 below	HK\$0.375
<b>Total</b>	<b>1,290,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,290,000</b>			

Notes:

- The exercise period is nine 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.

- 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

As set out in note 15(b) to the interim financial information, 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 are as follows:

Name or category of option holder	Number of options				Outstanding at 30 September 2010	Date of grant of options	Exercise period of options (Note 2)	Exercise price per share
	Outstanding at 1 April 2010	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period				
Ms. Yeh Shu Ping, Executive Director	1,500,000	-	-	-	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
	4,000,000	-	-	-	4,000,000			
Dr. Lu Pingguo, Executive Director	500,000	-	Note 1 (i)	-	500,000	23.7.2009	23.7.2009 to 23.7.2014	HK\$0.4
	3,500,000	-	Note 1 (ii)	-	3,500,000	23.7.2009	23.1.2010 to 23.7.2014	HK\$0.4
	4,000,000	-	Note 1 (i) & (ii)	-	4,000,000			
Employees working under continuous contracts - in aggregate	2,500,000	-	Note 1 (iii)	-	2,500,000	23.7.2009	23.7.2009 to 23.7.2014	HK\$0.4
	6,500,000	-	Note 1 (iv)	-	6,500,000	23.7.2009	23.1.2010 to 23.7.2014	HK\$0.4
	9,000,000	-	Note 1 (iii) & (iv)	-	9,000,000			
<b>Total</b>	<b>17,000,000</b>	<b>-</b>	<b>Note 1</b>	<b>-</b>	<b>17,000,000</b>			



## SHARE OPTIONS *(Continued)*

### (B) OPTION AGREEMENTS *(Continued)*

Notes:

1. On 27 September 2010, a total of 5,000,000 share options were exercised as follows:

- (i) 500,000 share options by Dr. Lu Pingguo.
- (ii) 3,500,000 share options by Dr. Lu Pingguo.
- (iii) 250,000 share options by an employee.
- (iv) 750,000 share options by an employee.

On 4 October 2010, an aggregate of 5,000,000 shares of the Company were allotted attributable to the above exercise of share options.

The weighted average closing price of shares immediately before the date on which the options were exercised was HK\$0.54.

- 2. The vesting period of the options is from the date of grant until the commencement of the exercise period.
- 3. 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 information for the six months ended 30 September 2010, 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 contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange during the six months ended 30 September 2010.

## **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 2010.

By Order of the Board  
**Chiu Ka Leung**  
*Chairman*

Hong Kong, 29 November 2010