



LongRun
龍潤

LONGRUN TEA GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 2898



Interim Report 2011

CONTENTS

	Page
Corporate Information	2
Interim Financial Information	
– Condensed Consolidated Income Statement	3
– Condensed Consolidated Statement of Comprehensive Income	4
– Condensed Consolidated Statement of Financial Position	5
– Condensed Consolidated Summary Statement of Changes in Equity	7
– Condensed Consolidated Statement of Cash Flows	8
– Notes to Interim Financial Information	9
Report on Review of Interim Financial Information	26
Management Discussion and Analysis	27
Supplementary Information	31



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
2898



INTERIM FINANCIAL INFORMATION

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 2011, together with the comparative figures for the corresponding period in 2010, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2011

	Notes	For the six months ended 30 September	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
REVENUE	2	206,578	195,567
Cost of sales		(115,845)	(117,479)
Gross profit		90,733	78,088
Other income and gains	3	4,082	168
Selling and distribution costs		(22,789)	(15,474)
Administrative expenses		(22,646)	(16,249)
Other expenses		(968)	(23)
Finance costs	4	(237)	(246)
PROFIT BEFORE TAX	5	48,175	46,264
Income tax expense	6	(15,982)	(13,116)
PROFIT FOR THE PERIOD		32,193	33,148
Attributable to:			
Owners of the Company		32,659	33,148
Non-controlling interests		(466)	–
		32,193	33,148
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
– Basic		HK2.25 cents	HK2.31 cents
– Diluted		HK2.25 cents	HK2.30 cents



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2011

	For the six months ended 30 September	
	2011 (Unaudited) <i>HK\$'000</i>	2010 (Unaudited) <i>HK\$'000</i>
PROFIT FOR THE PERIOD	32,193	33,148
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	5,333	(14)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	5,333	(14)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	37,526	33,134
Attributable to:		
Owners of the Company	38,024	33,134
Non-controlling interests	(498)	–
	37,526	33,134



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2011

		30 September 2011 (Unaudited)	31 March 2011 (Audited)
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	61,965	58,561
Prepaid land lease payments	10	5,764	5,672
Deposits for acquisition of items of property, plant and equipment		3,777	1,873
Intangible assets		41,665	44,540
Goodwill		116,920	116,920
Deferred tax assets		240	240
Total non-current assets		230,331	227,806
CURRENT ASSETS			
Inventories		20,968	17,892
Trade receivables	11	160,688	111,511
Prepayments, deposits and other receivables	12	15,056	11,620
Financial assets at fair value through profit or loss		177	279
Tax recoverable		–	51
Time deposits with original maturity of more than three months		44,253	–
Cash and cash equivalents		89,544	118,232
Total current assets		330,686	259,585
CURRENT LIABILITIES			
Trade payables	13	65,068	50,664
Other payables and accruals		36,842	27,237
Interest-bearing bank and other borrowings		14,995	16,051
Due to related companies	19(b)(i)	2,028	1,811
Due to directors	19(b)(ii)	2,271	1,001
Tax payable		10,011	4,127
Total current liabilities		131,215	100,891



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

30 September 2011

	Notes	30 September 2011 (Unaudited) <i>HK\$'000</i>	31 March 2011 (Audited) <i>HK\$'000</i>
NET CURRENT ASSETS		199,471	158,694
TOTAL ASSETS LESS CURRENT LIABILITIES		429,802	386,500
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		863	505
Deferred income		6,028	–
Deferred tax liabilities		9,320	9,930
Total non-current liabilities		16,211	10,435
Net assets		413,591	376,065
EQUITY			
Equity attributable to owners of the Company			
Issued capital	14	72,451	72,451
Reserves		341,659	303,635
		414,110	376,086
Non-controlling interests		(519)	(21)
Total equity		413,591	376,065



CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2011

	Attributable to owners of the Company								Total equity (Unaudited) HK\$'000
	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Employee share-based compensation reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Retained profits/(accumulated losses) (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	
At 1 April 2011	72,451	252,153	300	4,098	14,699	32,385	376,086	(21)	376,065
Profit for the period	-	-	-	-	-	32,659	32,659	(466)	32,193
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	5,365	-	5,365	(32)	5,333
Total comprehensive income for the period	-	-	-	-	5,365	32,659	38,024	(498)	37,526
At 30 September 2011	72,451	252,153	300	4,098	20,064	65,044	414,110	(519)	413,591
At 1 April 2010	71,801	235,380	300	16,321	6,932	(27,092)	303,642	-	303,642
Profit for the period	-	-	-	-	-	33,148	33,148	-	33,148
Other comprehensive loss for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	(14)	-	(14)	-	(14)
Total comprehensive income for the period	-	-	-	-	(14)	33,148	33,134	-	33,134
At 30 September 2010	71,801	235,380	300	16,321	6,918	6,056	336,776	-	336,776



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2011

	For the six months ended 30 September	
	2011 (Unaudited) <i>HK\$'000</i>	2010 (Unaudited) <i>HK\$'000</i>
NET CASH FLOWS FROM/(USED) IN OPERATING ACTIVITIES	20,331	(10,000)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(51,858)	(8,742)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(1,494)	(1,381)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(33,021)	(20,123)
Cash and cash equivalents at beginning of period	118,232	44,262
Effect of foreign exchange rate changes, net	4,333	(14)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	89,544	24,125
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	73,700	24,125
Non-pledged time deposit with original maturity of less than three months when acquired	15,844	–
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	89,544	24,125



NOTES TO INTERIM FINANCIAL INFORMATION

30 September 2011

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

The condensed interim financial information for the six months ended 30 September 2011 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 2011, except 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 information.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>

Apart from the above, the Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued Improvements to HKFRSs 2010 which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC)-Int 13 are effective for the reporting period.

Other than as further explained below regarding the impact of HKAS 34, the adoption of the above new and revised HKFRSs did not have any material effect on the financial position or performance of the Group, nor resulted in restatement of comparative figures.

HKAS 34 Interim Financial Reporting: the amendment requires additional disclosures for fair values and changes in classification of financial assets. The Group has illustrated those amendments in note 20.



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, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group’s profit 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	
	2011	2010	2011	2010	2011	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	23,701	23,202	182,877	172,365	206,578	195,567
Other revenue	236	83	3,601	24	3,837	107
Total	23,937	23,285	186,478	172,389	210,415	195,674
Segment results	1,918	4,334	53,806	52,794	55,724	57,128
Reconciliation:						
Interest income					214	61
Other unallocated gains					31	-
Corporate and other unallocated expenses					(7,557)	(10,679)
Finance costs					(237)	(246)
Profit before tax					48,175	46,264

2. OPERATING SEGMENT INFORMATION *(Continued)*

(b) Geographical information

Revenue from external customers:

	For the six months ended	
	30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The People's Republic of China (the "PRC"), excluding Hong Kong	198,525	185,725
Hong Kong	7,370	8,170
Elsewhere in Asia	683	1,672
	206,578	195,567

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

Information about major customers

Revenue of approximately HK\$20,757,000 for the period ended 30 September 2011 was derived from sales to a major customer, including sales to a group of entities which are known to be under common control with this customer.

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 respectively, 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	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income		
Interest income	214	61
Rental income	76	16
Franchise income	2,795	–
Subsidies income	181	–
Others	785	91
	4,051	168
Gains		
Fair value loss on financial assets at fair value through profit or loss	(119)	–
Gain on disposal of items of property, plant and equipment, net	150	–
	31	–
	4,082	168

4. FINANCE COSTS

	For the six months ended	
	30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	199	246
Interest on finance leases	38	–
	237	246

5. PROFIT BEFORE TAX

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

	For the six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	115,534	117,040
Depreciation	3,752	2,892
Recognition of prepaid land lease payments	70	67
Amortisation of intangible assets	2,984	2,441
Gain on disposal of items of property, plant and equipment, net	(150)	(28)

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 2010: 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 2011 and 2010 based on the rate prevailing in the jurisdictions in which the Group operates.

	For the six months ended 30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Mainland China	16,592	13,726
Deferred tax credit	(610)	(610)
Total tax charge for the period	15,982	13,116

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 2011 (2010: Nil).



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

The calculation of basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$32,659,000 (six months ended 30 September 2010: HK\$33,148,000) and the weighted average of 1,449,010,000 (six months ended 30 September 2010: 1,436,010,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$32,659,000 (six months ended 30 September 2010: HK\$33,148,000). The weighted average number of ordinary shares used in the calculation is the 1,449,010,000 (six months ended 30 September 2010: 1,436,010,000) ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of 1,076,598 (six months ended 30 September 2010: 6,424,721) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of HK\$6,430,000 (six months ended 30 September 2010: HK\$8,563,000).

10. PREPAID LAND LEASE PAYMENTS

	(Unaudited) HK\$'000
Carrying amount at 1 April 2011	5,811
Recognised during the period	(70)
Exchange realignment	165
Carrying amount at 30 September 2011	5,906
Current portion included in prepayments, deposits and other receivables	(142)
Non-current portion	5,764



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:

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Current (neither past due nor impaired)	88,556	92,699
Within 1 to 3 months overdue	70,240	17,165
More than 3 months overdue but less than 12 months overdue	1,802	1,599
Over 12 months overdue	90	48
	160,688	111,511

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 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

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Prepayments	4,379	3,038
Deposits and other receivables	10,677	8,582
	15,056	11,620

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:

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Current	50,325	44,048
Within 1 to 3 months overdue	11,729	4,619
More than 3 months overdue but less than 12 months overdue	2,350	1,593
Over 12 months overdue	664	404
	65,068	50,664

Included in the Group's trade payables are trade payables of HK\$18,625,000 (31 March 2011: HK\$20,779,000), HK\$14,537,000 (31 March 2011: HK\$143,000), HK\$13,643,000 (31 March 2011: HK\$195,000), HK\$5,921,000 (31 March 2011: HK\$3,726,000) and HK\$4,165,000 (31 March 2011: HK\$18,482,000) due to 雲南龍潤茶業集團有限公司 Yunnan Longrun Tea Group Limited ("LRTG"), 昌寧縣龍潤茶業有限公司 Changning Longrun Tea Company Limited ("CLRT"), 鳳慶龍潤茶業有限公司 Fengqing Longrun Tea Company Limited ("FLRT"), 雲縣天龍生態茶業有限責任公司 Yunxian Tialong Eco-Tea Company Limited ("YTET") and 雲南龍潤茶業發展有限公司 Yunnan Longrun Tea Development Company Limited ("YLRT"), respectively. CLRT, FLRT, YTET and YLRT are wholly owned subsidiaries of LRTG. LRTG is beneficially owned as to 90% and 10% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.

14. SHARE CAPITAL

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Authorised 5,000,000,000 ordinary shares of HK\$0.05 each	250,000	250,000
Issued and fully paid 1,449,010,000 (31 March 2011: 1,449,010,000) ordinary shares of HK\$0.05 each	72,451	72,451

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 "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 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 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 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 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, is subject to approval in advance by the independent non-executive Directors. In addition, any grant of share options 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, is 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 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 Scheme during the period:

	2011		2010	
	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 and 30 September	0.375	1,290,000	0.375	1,290,000

No share options were granted, exercised or lapsed during the current and prior periods.

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

30 September 2011 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
<u>1,290,000</u>		

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
<u>1,290,000</u>		

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 period:

	2011		2010	
	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 and 30 September	0.4	4,000,000	0.4	17,000,000

No share options were granted, exercised or lapsed during the current and prior periods.

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

30 September 2011 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
4,000,000		



15. EQUITY COMPENSATION PLANS *(Continued)*

(b) Option agreements *(Continued)*

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
<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.



16. OPERATING LEASES COMMITMENTS

(a) As lessor

The Group leases part of its factory under operating lease agreements, with leases negotiated for terms of one year. 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 2011, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Within one year	26	12

(b) As lessee

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

At 30 September 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Within one year	7,435	5,438
In the second to fifth years, inclusive	13,149	11,322
After five years	1,098	839
	21,682	17,599

17. COMMITMENTS

In addition to the operating lease commitments detailed in note 16 above, the Group had the following commitments at the end of the reporting period:

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Contracted, but not provided for:		
Leasehold improvements	2,040	1,253

18. CONTINGENT LIABILITIES

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

19. 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 period:

Name of related parties	Notes	For the six months ended 30 September	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Purchase of tea products from:			
Changing Longrun Tea Company Limited (昌寧縣龍潤茶業有限公司)	(ii), (iii)	27,227	26,632
Fengqing Longrun Tea Company Limited (鳳慶龍潤茶業有限公司)	(ii), (iii)	16,412	28,320
Yunxian Tialong Eco-Tea Company Limited (雲縣天龍生態 茶業有限責任公司)	(ii), (iii)	5,005	17,095
Yunnan Longrun Tea Development Company Limited (雲南龍潤茶業發展有限公司)	(ii), (iii)	5,774	23,267
Yunnan Longrun Tea Group Limited (雲南龍潤茶業集團有限公司)	(i), (iii)	45,668	16,779



19. 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 period ended 30 September 2011 and 2010 also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Outstanding balances with related companies

In addition to those balances disclosed elsewhere in this interim financial information, the Group had the following balances with related parties at the end of the reporting 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	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	3,070	3,070
Post-retirement benefits	42	42
	3,112	3,112

20. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group's financial instruments as at 30 September 2011 and 31 March 2011 are approximate to their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 30 September 2011, the Group held the following financial instruments measured at fair value:

Assets measured at fair value as at 30 September 2011 and 31 March 2011:

	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000

30 September 2011

Equity investments at fair value through profit or loss	177	–	–	177
---	-----	---	---	-----

	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000

31 March 2011

Equity investments at fair value through profit or loss	279	–	–	279
---	-----	---	---	-----

During the six months ended 30 September 2011 and 30 September 2010, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

21. PLEDGE OF ASSETS

At 30 September 2011, the Group's land and buildings with a net carrying amount of approximately HK\$25,479,000 (31 March 2011: HK\$26,068,000) were pledged to secure banking facilities granted to the Group.

22. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

This interim financial information was approved and authorised for issue by the board of directors on 25 November 2011.



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 3 to 25 which comprises the condensed consolidated statement of financial position of Longrun Tea Group Company Limited and its subsidiaries as of 30 September 2011 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 information. 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 of the Company 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.

26

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of 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

25 November 2011

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the six months ended 30 September 2011, turnover of the Group increased by 5.6% to approximately HK\$206,578,000 (six months ended 30 September 2010: HK\$195,567,000) whereas gross profit climbed by 16.2% to approximately HK\$90,733,000 (six months ended 30 September 2010: HK\$78,088,000) when compared to the corresponding period last year. The increase in gross profit is mainly attributable to the price of raw tea leaves returning to a stable and normal level after the drought in Yunnan during 2010.

Profit for the period was approximately HK\$32,193,000 (six months ended 30 September 2010: HK\$33,148,000), down approximately 2.9% year-on-year. Profit attributable to equity holders of the Company amounted to approximately HK\$32,659,000 (six months ended 30 September 2010: HK\$33,148,000) and basic earnings per share were approximately HK2.25 cents (six months ended 30 September 2010: HK2.31 cents), a decrease of 2.6% year-on-year. The reason for the drop was basically due to the increase in operating costs.

BUSINESS REVIEW

Tea and Other Food Products Businesses

During the period under review, the Group focused on distributing tea and other food products under the well-established “Longrun”(龍潤) brand in the PRC market. The Group actively expanded its distribution network and customer base during the period.

“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. 雲南龍潤茶業集團有限公司 (Yunnan Longrun Tea Group Limited) was designated the authorised manufacturer of tea products for World Expo 2010 held in Shanghai, the PRC. It has also been selected by Diaoyutai State Guesthouse (釣魚臺國賓館) as the appointed pu’erh tea manufacturer. The “Longrun”(龍潤) brand has also been awarded the China Renowned 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).



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

Tea Shops

As at 30 September 2011, we have more than 150 tea shops in Mainland China, Hong Kong and Singapore. Our traditional and convenience tea products, i.e. tea cakes, loose tea leaves, tea gift sets, convenience tea-cups, instant tea essence and tea bags, etc., are sold in these shops. In addition, we have launched more than 50 convenience tea shops in Yunnan and Shandong Provinces and Tianjin Municipality. Most of these shops are located close to business centres and office buildings, and primarily sell and distribute convenience tea products for office use, such as convenience tea-cups, instant tea essence and tea bags.

Mega Retail Outlet Targeting Tourists

The Group's mega retail outlet in Kunming is located in Kunming International Convention & Exhibition Centre (昆明國際會展中心) with close proximity to the Kunming Wujia International Airport (昆明巫家壩國際機場). With a floor area exceeding 25,000 square feet and operating 24 hours a day, this mega retail outlet targeted both domestic and international tourists travelling to Yunnan Province. Sales derived from this mega retail outlet have been very satisfactory. Given the robust growth of tourism in Yunnan Province, prospects for this mega retail outlet are promising.

Trendy Teahouses (茶物語 – Tea Story)

“茶物語 – Tea Story” – is our franchised operation of trendy teahouses in the PRC mainly targeting the younger generation. The principal products served in “茶物語 – Tea Story” include bubble teas, cocoa beverages, fruit drinks, shakes, slushes, Taiwanese snacks and light refreshments. As at 30 September 2011, we had expanded our “茶物語 – Tea Story” network to more than 780 franchised teahouses mainly located in Beijing and Shanghai Municipalities and Hunan, Guangdong, Fujian and Jiangsu Provinces.

Further Awards

To promote the unique traditional and modern Chinese tea culture to both domestic and international customers, the Group participated in the 3rd Hong Kong International Tea Fair organised by the Hong Kong Trade Development Council in August 2011. The Tea Fair provided a solid platform with a diverse audience for the Group's tea products to better enter the international marketplace. “Longrun”(龍潤) tea products were awarded the “Champion of Black Tea Category” and “1st Runner-up in the Aged Tea Category” at the Tea Fair.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

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 steady contribution. Revenue from this division was approximately HK\$23,701,000 for the period (six months ended 30 September 2010: HK\$23,202,000), accounting for about 11.5% (six months ended 30 September 2010: 11.9%) of the Group's total revenue. "Beauty and Healthy" (排毒美顏寶) remained the Group's major revenue contributor in this segment, accounting for 3.4% of the total turnover during the period (six months ended 30 September 2010: 3.9%).

PROSPECTS

The Group has made steady progress in expanding its tea business in Mainland China during the period under review. The Group intends to leverage the high recognition of the quality and popularity of the "Longrun" (龍潤) brand to further expand its distribution network and customer base. With many accomplishments during the first half-year, the management remains cautiously optimistic about the Group's performance for the rest of the year amidst the unstable global and domestic economic environments. The Group plans to focus on its tea and other food products businesses along with ongoing efforts to explore and pursue potential mergers and acquisitions that can enlarge market share and boost its presence in the food and beverage sector.

Going forward, the Group will continue to expand the sales network of the tea business by opening more tea shops and trendy teahouses. As Yunnan Province is one of the most popular tourist destinations in Mainland China, the Group expects to open another new mega store in Yunnan Province to address the tremendous growth of tourists in Yunnan. The Group will also explore further opportunities to set up more mega stores targeting visitors at other tourist attractions.

In view of the current international economic environment, the board of Directors (the "Board") will also review the current operating costs structure to ensure enhanced profitability of the Group for the future.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 September 2011, the Group had current assets of HK\$330,686,000 (31 March 2011: HK\$259,585,000) and cash and bank balances of HK\$133,797,000 (31 March 2011: HK\$118,232,000). The Group's current liabilities as at 30 September 2011 were HK\$131,215,000 (31 March 2011: HK\$100,891,000).

As at 30 September 2011, total equity was HK\$413,591,000 (31 March 2011: HK\$376,065,000). The Group had interest-bearing bank and other borrowings of HK\$15,858,000 as at 30 September 2011 (31 March 2011: HK\$16,556,000). The gearing ratio as at 30 September 2011, being the ratio of total liabilities to total equity, was 36% (31 March 2011: 30%).

EMPLOYEES

As at 30 September 2011, the Group had 445 employees (31 March 2011: 442 employees).

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

CONTINGENT LIABILITIES

As at 30 September 2011, 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 the US dollar and Renminbi in this regard.

PLEDGE OF THE GROUP'S ASSETS

As at 30 September 2011, the Group's leasehold land and buildings with an aggregate net carrying amount of approximately HK\$25,479,000 (31 March 2011: HK\$26,068,000) were pledged to secure banking facilities granted to the Group.

SUPPLEMENTARY INFORMATION

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

As at 30 September 2011, 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 interested	Percentage ⁺ of the Company's issued share capital
Dr. Chiu Ka Leung	Beneficial owner	739,244,500	51.01%
Ms. Yeh Shu Ping	Beneficial owner	43,995,500	3.03%
Mr. Jiao Shaoliang	Beneficial owner	770,000	0.05%
Dr. Lu Pingguo	Beneficial owner	14,000,000	0.96%



SUPPLEMENTARY INFORMATION *(Continued)*

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

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
Ms. Yeh Shu Ping	Beneficial owner	4,000,000	0.27%
Mr. Jiao Shaoliang	Beneficial owner	330,000	0.02%

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

32

* 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 2011.

In addition to the above, as at 30 September 2011, 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 (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 2011, 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.

SUPPLEMENTARY INFORMATION *(Continued)*

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 September 2011, 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 or as the Company is aware:

Long Position in Ordinary Shares of the Company

Name	Nature of interests	Number of ordinary shares interested	Percentage* of the Company's issued share capital
Guo Jinxiu	Interest held by spouse <i>(Note)</i>	739,244,500	51.01%
Chen Fang	Beneficial owner	110,000,000	7.59%
徐永鋒	Beneficial owner	100,000,000	6.90%

Note: 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 2011.

Save as disclosed above, as at 30 September 2011, 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 interests required to be kept pursuant to Section 336 of the SFO.



SUPPLEMENTARY INFORMATION *(Continued)*

SHARE OPTIONS

(A) Share Option Scheme

As set out in note 15(a) to the interim financial information, the Company operates the 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 Scheme during the period under review were as follows:

Name or category of option holder	Number of share options				Outstanding as at 30 September 2011	Date of grant of share options	Exercise period of share options	Exercise price per share
	Outstanding as at 1 April 2011	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
Total	1,290,000	-	-	-	1,290,000			

Notes:

1. 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.
2. The number and/or exercise price of the share options may be subject to adjustment in the case of rights or bonus issues, or other changes in the Company's share capital.

SUPPLEMENTARY INFORMATION *(Continued)*

SHARE OPTIONS *(Continued)*

(B) Option Agreements

As set out in note 15(b) to the interim financial information, on 17 May 2009, two Directors of the Company and two other employees of the Group entered into option agreements with the Company respectively, pursuant to which the Company agreed to grant to them options to subscribe for a total of 50,000,000 shares of the Company subject to fulfillment of the conditions under the option agreements. The options were subsequently granted on 23 July 2009.

Up to 1 April 2011 (the beginning of the interim period under review), options for a total of 46,000,000 shares of the Company have been exercised. Details of movements of the outstanding 4,000,000 share options during the period under review were as follows:

Name or category of option holder	Number of share options				Outstanding as at 30 September 2011	Date of grant of share options	Exercise period of share options (Note 1)	Exercise price per share
	Outstanding as at 1 April 2011	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
Total	4,000,000	-	-	-	4,000,000			

Notes:

1. The vesting period of the options is from the date of grant until the commencement of the exercise period.
2. 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.

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 2011, including accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters.



SUPPLEMENTARY INFORMATION *(Continued)*

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

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 2011.

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 2011.

By Order of the Board
Chiu Ka Leung
Chairman

Hong Kong, 25 November 2011