



LongRun

龍潤

LONGRUN TEA GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 2898



Interim Report

2014

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Chiu Ka Leung *Chairman*
Ms. Yeh Shu Ping *Vice-chairman and
Chief Executive
Officer*

Mr. Jiao Shaoliang
Dr. Lu Pingguo

Independent Non-executive Directors

Mr. Lam Siu Hung
Mr. Guo Guoqing
Mr. Kwok Hok Lun
Dr. Liu Zhonghua

AUDIT COMMITTEE

Mr. Lam Siu Hung *Chairman*
Mr. Guo Guoqing
Mr. Kwok Hok Lun

REMUNERATION COMMITTEE

Mr. Lam Siu Hung *Chairman*
Dr. Chiu Ka Leung
Ms. Yeh Shu Ping
Mr. Guo Guoqing
Mr. Kwok Hok Lun
Dr. Liu Zhonghua

NOMINATION COMMITTEE

Dr. Chiu Ka Leung *Chairman*
Mr. Lam Siu Hung
Mr. Guo Guoqing
Mr. Kwok Hok Lun
Dr. Liu Zhonghua

COMPANY SECRETARY

Mr. Hui Pang To *FCCA, CPA*

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 3007A-B,
Cable TV Tower,
9 Hoi Shing Road, Tsuen Wan,
New Territories, Hong Kong.

AUDITORS

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower, 1 Tim Mei Avenue,
Central, Hong Kong.

LEGAL ADVISERS

As to Hong Kong law:

Hastings & Co.
5/F, 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
DBS Bank (Hong Kong) Limited
Fubon Bank (Hong Kong) Limited
The Bank of East Asia, Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House,
24 Shedden Road, George Town,
Grand Cayman KY1-1110,
Cayman Islands.

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre,
183 Queen's Road East, Hong Kong.

WEBSITE & STOCK CODE

www.longruntea.com
2898

INTERIM FINANCIAL INFORMATION

The directors of Longrun Tea Group Company Limited (the “Company”) announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2014, together with the comparative figures for the corresponding period in 2013, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2014

	Notes	For the six months ended	
		30 September 2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
REVENUE	2	120,555	126,060
Cost of sales		(75,528)	(78,739)
Gross profit		45,027	47,321
Other income and gains	3	5,872	2,663
Gain on disposal of property, plant and equipment, net		548	68,591
Selling and distribution expenses		(43,830)	(47,113)
Administrative expenses		(25,628)	(50,258)
Other expenses		–	(75)
Finance costs	4	(13)	(114)
PROFIT/(LOSS) BEFORE TAX	5	(18,024)	21,015
Income tax expense	6	(1,074)	(679)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		(19,098)	20,336
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		
– Basic		(HK1.32 cents)	HK1.40 cents
– Diluted		(HK1.32 cents)	HK1.40 cents

Details of dividend for the period under review are disclosed in note 7 to the interim financial information.



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2014

	For the six months ended 30 September	
	2014 (Unaudited) <i>HK\$'000</i>	2013 (Unaudited) <i>HK\$'000</i>
PROFIT/(LOSS) FOR THE PERIOD	(19,098)	20,336
OTHER COMPREHENSIVE INCOME		
ITEM THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS:		
Exchange differences on translation of foreign operations	2,995	3,956
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	2,995	3,956
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	(16,103)	24,292

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2014

		30 September 2014 (Unaudited) <i>HK\$'000</i>	31 March 2014 (Audited) <i>HK\$'000</i>
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	9	65,877	66,812
Prepaid land lease payments		5,494	5,489
Intangible assets		22,627	25,068
Goodwill		116,920	116,920
Prepayment for acquisition of property, plant and equipment		105	–
Total non-current assets		211,023	214,289
CURRENT ASSETS			
Properties classified as held for sale	10	–	341
Inventories		38,412	26,450
Trade and bills receivables	11	29,355	42,821
Prepayments, deposits and other receivables		26,095	18,208
Financial assets at fair value through profit or loss		183	170
Tax recoverables		238	–
Restricted cash		–	3,742
Time deposits with original maturity of more than three months		190,367	185,239
Cash and cash equivalents		87,941	100,363
Total current assets		372,591	377,334
CURRENT LIABILITIES			
Trade payables	12	59,466	51,064
Other payables and accruals		67,551	68,707
Interest-bearing bank and other borrowings		273	264
Due to related companies	18(b)(i)	1,688	1,922
Due to directors	18(b)(ii)	11,867	10,951
Tax payable		–	542
Total current liabilities		140,845	133,450



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

30 September 2014

	Notes	30 September 2014 (Unaudited) <i>HK\$'000</i>	31 March 2014 (Audited) <i>HK\$'000</i>
NET CURRENT ASSETS		231,746	243,884
TOTAL ASSETS LESS CURRENT LIABILITIES		442,769	458,173
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		37	175
Deferred income		6,236	6,297
Deferred tax liabilities		7,744	6,846
Total non-current liabilities		14,017	13,318
Net assets		428,752	444,855
EQUITY			
Equity attributable to owners of the Company			
Issued capital	13	72,476	72,476
Reserves		356,276	372,379
Total equity		428,752	444,855

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2014

	Attributable to owners of the Company						Total (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 (Unaudited) HK\$'000	
At 1 April 2014	72,476	252,319*	300*	4,098*	25,944*	89,718*	444,855
Loss for the period	-	-	-	-	-	(19,098)	(19,098)
Other comprehensive income for the period:							
Exchange differences on translation of foreign operations	-	-	-	-	2,995	-	2,995
Total comprehensive income for the period	-	-	-	-	2,995	(19,098)	(16,103)
Transfer upon the expiry of share options	-	-	-	(4,098)	-	4,098	-
At 30 September 2014	72,476	252,319*	300*	-*	28,939*	74,718*	428,752
At 1 April 2013	72,476	252,319	300	4,098	26,068	74,810	430,071
Profit for the period	-	-	-	-	-	20,336	20,336
Other comprehensive income for the period:							
Exchange differences on translation of foreign operations	-	-	-	-	3,956	-	3,956
Total comprehensive income for the period	-	-	-	-	3,956	20,336	24,292
At 30 September 2013	72,476	252,319	300	4,098	30,024	95,146	454,363

* These reserve accounts comprise the consolidated reserves of HK\$356,276,000 (31 March 2014: HK\$372,379,000) in the condensed consolidated statement of financial position.



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2014

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	(6,026)	(42,981)
Income tax paid	(957)	(4,549)
Net cash flows used in operating activities	(6,983)	(47,530)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,505	5,201
Purchases of items of property, plant and equipment	(6,469)	(10,144)
Dividend received from listed investment	8	21
Proceeds from disposal of items of property, plant and equipment	799	83,348
Proceeds from disposal of financial assets at fair value through profit or loss	–	144
Disposal of subsidiaries	–	(75)
Increase in short term time deposits with original maturity of more than three months	(5,128)	(83,156)
Net cash flows used in investing activities	(8,285)	(4,661)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank and other borrowings	(129)	(11,680)
Interest paid	(13)	(114)
Increase in amounts due to directors	916	1,845
Net cash flows from/(used in) financing activities	774	(9,949)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

For the six months ended 30 September 2014

	For the six months ended	
	30 September 2014	2013
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
NET DECREASE IN CASH AND CASH EQUIVALENTS	(14,494)	(62,140)
Cash and cash equivalents at beginning of period	100,363	134,382
Effect of foreign exchange rate changes, net	2,072	2,850
CASH AND CASH EQUIVALENTS AT END OF PERIOD	87,941	75,092
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	87,941	75,092
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	87,941	75,092



NOTES TO INTERIM FINANCIAL INFORMATION

30 September 2014

1. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICY AND DISCLOSURE

The condensed consolidated interim financial information for the six months ended 30 September 2014 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants.

The condensed consolidated interim financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2014. The accounting policies and basis of preparation adopted in the preparation of the interim financial information are the same as those used in the annual financial statements for the year ended 31 March 2014, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Company and the Group has adopted for the first time for the current period's financial information.

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>

Adoption of the above new and revised HKFRSs did not have any material effect on the financial position or performance of the Group.

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

2. OPERATING SEGMENT INFORMATION

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

- (a) the “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 the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. 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, gain on disposal of property, plant and equipment, net, as well as head office and corporate expenses are excluded from such measurement.

(a) Business segment

	For the six months ended 30 September					
	Manufacturing and distribution of pharmaceutical products		Distribution of tea and other food products		Total	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	27,400	26,786	93,155	99,274	120,555	126,060
Other revenue	98	265	2,108	669	2,206	934
Total	27,498	27,051	95,263	99,943	122,761	126,994
Segment results	(3,986)	(516)	(9,981)	(14,185)	(13,967)	(14,701)
Reconciliation:						
Interest income					3,223	1,582
Gain on disposal of property, plant and equipment, net					548	68,591
Dividend income and other unallocated gains					430	171
Corporate and other unallocated expenses					(8,245)	(34,514)
Finance costs					(13)	(114)
Profit/(loss) before tax					(18,024)	21,015



2. OPERATING SEGMENT INFORMATION *(Continued)*

(b) Geographical information

Revenue from external customers:

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The People's Republic of China (the "PRC"), excluding Hong Kong	110,095	120,510
Hong Kong	3,774	4,704
Elsewhere in Asia	6,686	846
	120,555	126,060

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

3. OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income		
Interest income	3,223	1,582
Franchise income	1,085	477
Others	1,551	628
	5,859	2,687
Gains		
Fair value gains/(losses) on financial assets at fair value through profit or loss	13	(24)
	5,872	2,663

4. FINANCE COSTS

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans wholly repayable within five years	–	92
Interest on finance leases	13	22
	13	114

5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	73,931	78,525
Amortisation of intangible assets	2,442	2,442
Depreciation	7,872	8,245
Recognition of prepaid land lease payments	72	70
Write-down of provision of inventories to net realisable value	500	198
Impairment of trade receivables, net	1,000	933



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 2013: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended	
	30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Mainland China		
Charge for the year	840	1,925
Overprovision in prior years	(655)	(636)
Deferred tax expense/(credit)	889	(610)
Total tax charge for the period	1,074	679

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

In accordance with the relevant tax rules and regulations in Mainland China, a subsidiary of the Company in Mainland China enjoying tax benefit as follows:

Yunnan Longrun Tea Technology Company Limited, a subsidiary of the Company in the PRC, was assessed as High and New Technology Enterprise which is subject to a reduced preferential corporate income tax rate of 15% for a 3-year period from 2012 to 2014 according to the applicable PRC Corporate Income Tax Law.

7. INTERIM DIVIDEND

The directors of the Company did not propose to declare any interim dividend for the six months ended 30 September 2014 (six months ended 30 September 2013: Nil).

8. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings/(loss) per share amounts is based on the loss for the period attributable to owners of the Company of HK\$19,098,000 (six months ended 30 September 2013: profit of HK\$20,336,000) and the weighted average of 1,449,520,000 (six months ended 30 September 2013: 1,449,520,000) ordinary shares in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 September 2014 (six months ended 30 September 2013: basic earnings per share) in respect of a dilution as the impact of the share options outstanding, where applicable, during the period had no dilutive effect (six months ended 30 September 2013: no dilutive effect) on the basis earnings/(loss) per share amounts presented.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of HK\$6,364,000 (six months ended 30 September 2013: HK\$10,144,000).

10. PROPERTIES CLASSIFIED AS HELD FOR SALE

During the period, the Group disposed of properties classified as held for sale with an aggregate net book value of HK\$341,000 (six months ended 30 September 2013: HK\$23,947,000). As at 31 March 2014, the Group's properties classified as held for sale with an aggregate carrying amount of HK\$341,000 are situated in Hong Kong and are held under medium leases.

11. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period ranging from 30 days to 180 days to its customers. Trade and bills receivables are non-interest-bearing.

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

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Within 1 month	14,144	38,249
2 to 3 months	14,421	2,830
4 to 12 months	790	1,719
Over 12 months	–	23
	29,355	42,821

12. TRADE PAYABLES

The trade payables are non-interest-bearing and are normally settled in 90-day terms.

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

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Current	45,204	41,175
Within 1 to 3 months overdue	8,015	7,281
Within 4 to 12 months overdue	4,740	1,600
Over 12 months overdue	1,507	1,008
	59,466	51,064



12. TRADE PAYABLES (Continued)

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

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Changning Longrun Tea Company Limited [®] ("CLRT") 昌寧縣龍潤茶業有限公司	10,171	7,165
Fengqing Longrun Tea Company Limited [®] ("FLRT") 鳳慶龍潤茶業有限公司	12,702	22,879
Yunnan Longrun Tea Group Limited [®] ("LRTG") 雲南龍潤茶業集團有限公司	13,691	3,014
Yunnan Longrun Tea Development Company Limited [®] ("YLRT") 雲南龍潤茶業發展有限公司	2,638	1,458
	39,202	34,516

CLRT, FLRT 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.

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

13. SHARE CAPITAL

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Authorised:		
5,000,000,000 ordinary shares of HK\$0.05 each	250,000	250,000
Issued and fully paid:		
1,449,520,000 ordinary shares of HK\$0.05 each	72,476	72,476

Share options

Details of the Company's share options issued are included in note 14 to the interim financial information.

14. EQUITY COMPENSATION PLAN

Option agreements

The following share options were lapsed under the option agreements during the period:

	Weighted average exercise price <i>HK\$ per share</i>	Number of options
At 1 April and 30 September 2013, and 1 April 2014	0.4	4,000,000
Lapsed during the period	0.4	(4,000,000)
At 30 September 2014		–

15. 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 ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for period rent adjustment according to the then prevailing market condition.

At 30 September 2014, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Within one year	1,440	1,260
In the second to fifth years, inclusive	7,803	8,312
	9,243	9,572



15. OPERATING LEASES COMMITMENTS (Continued)

(b) As lessee

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

At 30 September 2014, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Within one year	13,236	14,572
In the second to fifth years, inclusive	25,541	25,425
After five years	62,243	64,134
	101,020	104,131

16. COMMITMENTS

In addition to the operating lease commitments detailed in note 15 above, the Group had the following commitments at the end of the reporting period:

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Contracted, but not provided for:		
Leasehold improvements	228	78
Authorised, but not contracted for:		
Land and buildings	25,298	24,948
	25,526	25,026

17. CONTINGENT LIABILITIES

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

18. 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	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Sales of tea products to:			
Ideality Technology Group Company Limited ("ITGC")	(i), (iv)	7,628	–
Purchase of tea products from:			
CLRT	(iii), (iv)	16,567	3,596
FLRT	(iii), (iv)	7,997	2,987
YLRT	(iii), (iv)	1,323	2,803
LRTG	(ii), (iv)	34,303	52,824

Notes:

- (i) ITGC is beneficially owned as to 85.5% and 14.5% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.
- (ii) LRTG is beneficially owned as to 90% and 10% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.
- (iii) The companies are wholly-owned subsidiaries of LRTG.
- (iv) The transactions were conducted at rates mutually agreed between the relevant parties.

The above transactions entered into by the Group during the six-month periods ended 30 September 2014 and 2013 also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").



18. RELATED PARTY TRANSACTIONS (Continued)

(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 companies, YLRT and FLRT, of HK\$916,000 (31 March 2014: HK\$568,000) and HK\$772,000 (31 March 2014: HK\$761,000), respectively, are unsecured, interest-free and have no fixed terms of repayment.

The amount due to a related company, 雲南龍潤藥業有限公司 (Yunnan Long Run Pharmaceuticals Company Limited ("YLRP")), of HK\$593,000 as at 31 March 2014 was unsecured, interest-free and had 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	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	3,900	29,470
Post-retirement benefits	57	51
Total compensation paid to key management personnel	3,957	29,521

19. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group's financial instruments as at 30 September 2014 and 31 March 2014 are approximate to their fair values.

The Group uses fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities for determining and disclosing the fair value of financial instruments. As at 30 September 2014, the Group's financial instruments which comprise of financial assets at fair value through profit or loss was measured at fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 under the fair value hierarchy).

20. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

This interim financial information was approved and authorised for issue by the board of directors on 19 November 2014.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



To the board of directors of Longrun Tea Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information of Longrun Tea Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 3 to 20 which comprises the condensed consolidated statement of financial position as at 30 September 2014 and the condensed consolidated statement of profit or loss, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the 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.



SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently, it 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 accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young

Certified Public Accountants

22nd Floor, CITIC Tower

1 Tim Mei Avenue, Central

Hong Kong

19 November 2014

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the six months ended 30 September 2014, the revenue of the Group decreased by approximately 4.4% to approximately HK\$120,555,000 (six months ended 30 September 2013: HK\$126,060,000). The gross profit of the Group decreased by approximately 4.8% to approximately HK\$45,027,000 (six months ended 30 September 2013: HK\$47,321,000).

Other income and gains of the Group for the six months ended 30 September 2014 was approximately HK\$5,872,000 (six months ended 30 September 2013: HK\$2,663,000) increased by 120.5% over the corresponding period last year. The increase was mainly due to the increase in the fixed deposit interest income from banks in the PRC.

Administrative expenses of the Group decreased by 49.0% from approximately HK\$50,258,000 for the six months ended 30 September 2013 to approximately HK\$25,628,000 for the six months ended 30 September 2014. The decrease in such administrative expenses was mainly resulted from the absence of the Group's payment of a one-off special bonus to certain directors and managements, for their contributions on the sale of the Group's property in corresponding period in 2013.

Loss before tax for the six months ended 30 September 2014 was approximately HK\$18,024,000 (six months ended 30 September 2013: profit before tax of HK\$21,015,000). Loss attributable to owners of the Company for the six months ended 30 September 2014 amounted to approximately HK\$19,098,000 (six months ended 30 September 2013: profit of HK\$20,336,000). The loss for the period under review as compared to a profit for the corresponding period last year was mainly due to absence of the one-off gain arising from the disposal of the Group's property in July 2013, of which the Group recorded a gain before tax and expenses of approximately HK\$69.61 million for the six months ended 30 September 2013.

Basic loss per share was HK1.32 cents against earnings per share of HK1.40 cents for the six months ended 30 September 2013.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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 continued to expand its distribution network during the period.

For the period under review, the poor spending sentiment has still been affecting the consumer market in the PRC. In this regard, the Group started to explore additional distribution channels for its products. In April 2014, the Group has entered into a sales agreement with Ideality Technology Group Company Limited (the “Ideality Group”), a company effectively owned as to 85.5% by Dr. Chiu Ka Leung and as to 14.5% by Mr. Jiao Shaoliang, both are executive directors of the Company. The Ideality Group possesses a direct selling operating permit issued by the Ministry of Commerce of China and is principally engaged in direct selling business in the PRC. During the period under review, sales to the Ideality Group amounted to approximately HK\$7.6 million.

Revenue for the period from tea and other food products businesses was approximately HK\$93,155,000 (six months ended 30 September 2013: HK\$99,274,000), accounting for approximately 77.3% (six months ended 30 September 2013: 78.8%) of the Group’s total revenue.

Tea Shops

Our traditional and convenient tea products, i.e. tea cake, loose tea leaves, tea gift sets, convenient tea cups, instance tea essence and tea bags, etc., are sold in traditional tea shops. The convenient tea shops, mostly located close to business centres and office buildings, primarily sell and distribute convenient tea products for office use, such as convenient tea cups, instance tea essence and tea bags. For the six months ended 30 September 2014, the Group has devoted much of its resources to strengthen the distribution network, such as offering special incentive discounts and better support services to new franchisees. As at 30 September 2014, the Group managed a network comprising a total of over 500 self-owned and franchised tea shops primarily located in Mainland China. Although rapid expansion of the franchise network has brought pressure on the Group’s margin, the management believes that the network expansion will enhance brand and product recognitions in the PRC which the Group will be benefited in the medium term.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

Mega Retail Outlet Targeting Tourists

Besides the traditional tea shops, the Group also focuses on the tourist market. The Group has operating mega retail outlets targeting both domestic and international tourists travelling to Yunnan Province. The Group now operates four Mega Retail Outlets in Kunming, Yunnan Province with a gross total area over 80,000 square feet.

Location of Mega Retail Outlet	Highlight
Kunming International Convention & Exhibition Centre (昆明國際會展中心)	A place for international exhibitions and fairs
Kunming World Horticultural Expo Garden (昆明世界園藝博覽園)	A must-see tourist attraction in Kunming
Yunnan Nationalities Village (雲南民族村)	25 ethnic minorities living in Yunnan Province
Lijiang City (麗江市)	The world famous “Old Town of Lijiang” which is a UNESCO Heritage Site

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\$27,400,000 (six months ended 30 September 2013: HK\$26,786,000), accounting for approximately 22.7% (six months ended 30 September 2013: 21.2%) 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 2.7% (six months ended 30 September 2013: 3.9%) of the total turnover during the period under review.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

PROSPECTS

The current cautious attitude on consumer spending in the PRC has adverse effects on the domestic retail market. The Group will continue to strive for further development of the retail market of its products.

For the six months ended 30 September 2014, the selling and distribution expenses moderately decreased given the implementation of cost control measures by the Group. In response to the inflationary commercial environment, the Group will continue to monitor its cost structure closely and to formulate business strategies to enhance its operational efficiency.

Amid the difficulties of the PRC's economy and in particular its consumer market, the Group will continue to focus on brand building and distribution channel development. In the second half of this financial year, the Group will further (1) expand its franchise network, and (2) cooperate with the Ideality Group with a view to utilizing its direct selling capabilities to distribute the Group's products.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 September 2014, the Group had current assets of HK\$372,591,000 (31 March 2014: HK\$377,334,000) and cash and bank balances of HK\$87,941,000 (31 March 2014: HK\$100,363,000). The Group's current liabilities as at 30 September 2014 were HK\$140,845,000 (31 March 2014: HK\$133,450,000).

As at 30 September 2014, total equity was HK\$428,752,000 (31 March 2014: HK\$444,855,000). The Group had interest-bearing bank and other borrowings of HK\$310,000 as at 30 September 2014 (31 March 2014: HK\$439,000). The gearing ratio as at 30 September 2014, being the ratio of total liabilities to total equity, was 36.1% (31 March 2014: 33.0%).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

EMPLOYEES

As at 30 September 2014, the Group had 828 employees (31 March 2014: 729 employees).

Remuneration policy and package for the Group's employees are reviewed and approved by the board of directors of the Company (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 bonus to its employees.

CONTINGENT LIABILITIES

As at 30 September 2014, the Group did not have any significant contingent liabilities.

EXCHANGE RISK

The Group mainly operates in the PRC with most transactions settled in Renminbi. The assets and liabilities, and transactions arising from the operations were mainly denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the Board believes that future currency fluctuations will not have any material impact on the Group's operations. The Group had not adopted formal hedging policies.

PLEDGE OF THE GROUP'S ASSETS

As at 30 September 2014, the Group's assets have not been 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 2014, the interests of the directors of the Company in the 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:

Long position in ordinary shares of the Company

Name of director	Capacity	Number of ordinary shares	Percentage ⁺ of the Company's issued share capital
Dr. Chiu Ka Leung	Beneficial owner	787,094,500	54.30%
Ms. Yeh Shu Ping	Beneficial owner	43,895,500	3.03%
Mr. Jiao Shaoliang	Beneficial owner	1,100,000	0.08%
Dr. Lu Pingguo	Beneficial owner	16,880,000	1.16%

⁺ The percentage represents the number of ordinary shares involved divided by the number of the Company's issued shares as at 30 September 2014.

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

SUPPLEMENTARY INFORMATION *(Continued)*

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Save as disclosed above and in the section headed "Share options", as at 30 September 2014, none of the directors or chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2014, the following persons/corporations had interests of 5% or more of the issued shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO or as the Company is aware:

Long position in ordinary shares of the Company

Name	Capacity	Number of ordinary shares	Percentage ⁺ of the Company's issued share capital
Guo Jinxiu	Interest held by spouse (Note 1)	787,094,500	54.30%
Chen Fang	Beneficial owner	110,000,000	7.59%
徐永鋒	Beneficial owner	100,000,000	6.90%



SUPPLEMENTARY INFORMATION *(Continued)*

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

Long position in ordinary shares of the Company *(Continued)*

Name	Capacity	Number of ordinary shares	Percentage ⁺ of the Company's issued share capital
Law Fei Shing	Interest of controlled corporations (Note 2)	764,215,000	52.72%
True Promise Investments Limited	Interest of controlled corporation (Note 2)	764,215,000	52.72%
Excel Precise International Limited	Person having a security interest in shares (Note 2)	764,215,000	52.72%

Notes:

1. Ms. Guo Jinxiu, being the spouse of Dr. Chiu Ka Leung, was deemed to have such interest held by Dr. Chiu Ka Leung. Such interest of Dr. Chiu has been disclosed in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above.
2. Excel Precise International Limited was a company owned as to 25% by Mr. Law Fei Shing and 73.5% by True Promise Investments Limited. True Promise Investments Limited in turn was wholly-owned by Mr. Law Fei Shing. Accordingly, Mr. Law Fei Shing and True Promise Investments Limited were deemed to be interested in these shares which Excel Precise International Limited was deemed to have a security interest.

⁺ The percentage represents the number of ordinary shares involved divided by the number of the Company's issued shares as at 30 September 2014.

SUPPLEMENTARY INFORMATION *(Continued)*

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

Save as disclosed above, as at 30 September 2014, no person, other than the directors of the Company 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.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of a director of the Company is set out below:

- Mr. Guo Guoqing, an independent non-executive director of the Company, has resigned as an independent director of Sinosteel Engineering & Technology Co., Ltd. (named changed from "Sinosteel Jilin Carbon Co., Ltd." in September 2014; stock code: 000928) and Jiugui Liquor Co., Ltd. (stock code: 000799), both companies are listed on the Shenzhen Stock Exchange, in June and July 2014 respectively.

SHARE OPTIONS

(A) Share option scheme

The Company currently operates a share option scheme (the "Scheme") (which is made pursuant to Chapter 17 of the Listing Rules) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. No share option has been granted under the Scheme since its adoption on 17 August 2012.

(B) Option agreements

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



SUPPLEMENTARY INFORMATION *(Continued)*

SHARE OPTIONS *(Continued)*

(B) Option agreements *(Continued)*

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

Name or category of option holder	Number of share options				Outstanding as at 30 September 2014	Date of grant of share options	Exercise period of share options (Note 1)	Exercise price per share
	Outstanding as at 1 April 2014	Granted during the period	Exercised/ cancelled during the period	Lapsed 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 three independent non-executive directors (being Mr. Lam Siu Hung, Mr. Guo Guoqing and Mr. Kwok Hok Lun), has reviewed with management the unaudited consolidated interim financial information for the six months ended 30 September 2014, 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 Corporate Governance Code contained in Appendix 14 to the Listing Rules during the six months ended 30 September 2014, except for code provision E.1.2.

Code provision E.1.2 stipulates that the chairman of a listed issuer should attend the issuer's annual general meeting. Dr. Chiu Ka Leung, the Chairman of the Company, was unable to attend the Company's annual general meeting held on 18 August 2014 due to another business engagement. In view of his absence, Dr. Chiu had arranged for Mr. Jiao Shaoliang, an executive director who is well versed in the Group's business activities and operations, to attend and chair the meeting and communicate with the shareholders. The Company Secretary and other senior management were also available to answer questions from shareholders at that meeting.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding directors' dealings in the Company's securities (the "Code"). All directors of the Company have confirmed, following specific enquiries by the Company, that they have fully complied with the Code throughout the period under review.



SUPPLEMENTARY INFORMATION *(Continued)*

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

The Company has established written guidelines for the relevant employees of the Company (the "Relevant Employees") in respect of their dealings in the securities of the Company (the "Written Guidelines") on terms no less exacting than the required standard set out in the Model Code. For this purpose, "Relevant Employee" includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to possess inside information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company during the six months ended 30 September 2014.

By Order of the Board
Chiu Ka Leung
Chairman

Hong Kong, 19 November 2014