



LongRun
龍潤

LONGRUN TEA GROUP COMPANY LIMITED

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

2015 Interim Report



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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 Hoí 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 (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 2015, together with the comparative figures for the corresponding period in 2014, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2015

	Notes	For the six months ended 30 September	
		2015 (Unaudited) <i>HK\$'000</i>	2014 (Unaudited) <i>HK\$'000</i>
REVENUE	2	107,797	120,555
Cost of sales		(68,481)	(75,528)
Gross profit		39,316	45,027
Other income and gains	3	3,928	6,420
Selling and distribution expenses		(34,968)	(43,830)
Administrative expenses		(17,727)	(25,628)
Finance costs	4	(5)	(13)
LOSS BEFORE TAX	5	(9,456)	(18,024)
Income tax expense	6	(320)	(1,074)
LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		(9,776)	(19,098)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		
– Basic		(HK0.67 cent)	(HK1.32 cents)
– Diluted		(HK0.67 cent)	(HK1.32 cents)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2015

	For the six months ended 30 September	
	2015	2014
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
LOSS FOR THE PERIOD	(9,776)	(19,098)
OTHER COMPREHENSIVE INCOME/(LOSS)		
ITEM THAT MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS:		
Exchange differences on translation of foreign operations	(5,202)	2,995
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	(5,202)	2,995
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	(14,978)	(16,103)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2015

		30 September 2015 (Unaudited) HK\$'000	31 March 2015 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	9	20,917	21,193
Prepaid land lease payments		5,155	5,360
Total non-current assets		26,072	26,553
CURRENT ASSETS			
Inventories		30,708	31,079
Trade and bills receivables	10	46,459	41,260
Prepayments, deposits and other receivables		15,442	15,386
Tax recoverable		143	–
Time deposits with original maturity of more than three months		91,410	165,053
Cash and cash equivalents		139,792	81,936
Total current assets		323,954	334,714
CURRENT LIABILITIES			
Trade payables	11	41,134	35,996
Other payables and accruals		59,705	60,651
Finance lease payables		299	175
Due to related companies	16(b)(i)	2,092	1,803
Due to directors	16(b)(ii)	13,880	12,978
Tax payable		–	1,490
Total current liabilities		117,110	113,093

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

30 September 2015

	Notes	30 September 2015 (Unaudited) <i>HK\$'000</i>	31 March 2015 (Audited) <i>HK\$'000</i>
NET CURRENT ASSETS		206,844	221,621
TOTAL ASSETS LESS CURRENT LIABILITIES		232,916	248,174
NON-CURRENT LIABILITIES			
Finance lease payables		603	–
Deferred income		5,404	6,259
Deferred tax liabilities		349	377
Total non-current liabilities		6,356	6,636
Net assets		226,560	241,538
EQUITY			
Equity attributable to owners of the Company			
Issued capital	12	72,476	72,476
Reserves		154,084	169,062
Total equity		226,560	241,538

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2015

	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	Statutory surplus reserve (unaudited) HK\$'000	Employee share-based compensation reserve (unaudited) HK\$'000	Exchange fluctuation reserve (unaudited) HK\$'000	Retained profits/ (accumulated losses) (unaudited) HK\$'000	
At 1 April 2015	72,476	252,319*	300*	2,364*	-*	26,504*	(112,425)*	241,538
Loss for the period	-	-	-	-	-	-	(9,776)	(9,776)
Other comprehensive loss for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	-	(5,202)	-	(5,202)
Total comprehensive loss for the period	-	-	-	-	-	(5,202)	(9,776)	(14,978)
At 30 September 2015	72,476	252,319*	300*	2,364*	-*	21,302*	(122,201)*	226,560
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/(loss) 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

* These reserve accounts comprise the consolidated reserves of HK\$154,084,000 (31 March 2015: HK\$169,062,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2015

	For the six months ended	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	(12,075)	(6,026)
Income tax paid	(1,961)	(957)
Net cash flows used in operating activities	(14,036)	(6,983)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,919	2,505
Purchases of items of property, plant and equipment	(1,785)	(6,469)
Dividend received from listed investment	-	8
Proceeds from disposal of items of property, plant and equipment	84	799
Increase/(decrease) in short term time deposits with original maturity of more than three months	73,643	(5,128)
Net cash flows from/(used in) investing activities	75,861	(8,285)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital element of finance lease rental payments	(165)	(129)
Interest paid	(4)	(13)
Increase in amounts due to directors	902	916
Net cash flows from financing activities	733	774

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

For the six months ended 30 September 2015

	For the six months ended	
	30 September	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	62,558	(14,494)
Cash and cash equivalents at beginning of period	81,936	100,363
Effect of foreign exchange rate changes, net	(4,702)	2,072
CASH AND CASH EQUIVALENTS AT END OF PERIOD	139,792	87,941
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	139,792	87,941
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	139,792	87,941

NOTES TO INTERIM FINANCIAL INFORMATION

30 September 2015

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

The condensed consolidated interim financial information for the six months ended 30 September 2015 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 2015. 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 2015, 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.

Amendments to HKAS 19 <i>Annual Improvements</i> 2010-2012 Cycle	<i>Defined Benefit Plans: Employee Contributions</i> Amendments to a number of HKFRSs
<i>Annual Improvements</i> 2011-2013 Cycle	Amendments to a number of HKFRSs

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 loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group’s 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	
	2015	2014	2015	2014	2015	2014
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	34,761	27,400	73,036	93,155	107,797	120,555
Other revenue	151	98	1,497	2,108	1,648	2,206
Total	34,912	27,498	74,533	95,263	109,445	122,761
Segment results	(2,454)	(3,986)	(3,377)	(9,981)	(5,831)	(13,967)
Reconciliation:						
Interest income					2,196	3,223
Gain on disposal of property, plant and equipment, net					84	548
Dividend income and other unallocated gains					-	430
Corporate and other unallocated expenses					(5,900)	(8,245)
Finance costs					(5)	(13)
Loss before tax					(9,456)	(18,024)

2. OPERATING SEGMENT INFORMATION *(Continued)*

(b) Geographical information

Revenue from external customers:

	For the six months ended 30 September	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The People's Republic of China (the "PRC"), excluding Hong Kong	98,000	110,095
Hong Kong	3,160	3,774
Elsewhere in Asia	6,637	6,686
	107,797	120,555

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

3. OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income		
Interest income	2,196	3,223
Franchise income	1,103	1,085
Others	545	1,551
	3,844	5,859
Gains		
Fair value gains on financial assets at fair value through profit or loss	–	13
Gain on disposal of items of property, plant and equipment, net	84	548
	84	561
	3,928	6,420

4. FINANCE COSTS

	For the six months ended 30 September	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Interest on finance leases	4	13
Others	1	–
	5	13

5. LOSS BEFORE TAX

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

	For the six months ended 30 September	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Cost of inventories sold	66,517	73,931
Amortisation of intangible assets	–	2,442
Depreciation	2,321	7,872
Recognition of prepaid land lease payments	71	72
Write-down of provision of inventories to net realisable value, net	21	500
Impairment of trade receivables	887	1,316
Reversal of impairment of trade receivables	(137)	(316)

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 2014: 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	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Current – Mainland China		
Charge for the year	481	840
Overprovision in prior years	(142)	(655)
Deferred tax expense/(credit)	(19)	889
Total tax charge for the period	320	1,074

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:

雲南龍發製藥有限公司 (Yunnan Long Far Pharmaceutical Company Limited*) (“YNLF”), 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 2014 to 2017 according to the applicable PRC Corporate Income Tax Law.

7. INTERIM DIVIDEND

The Directors did not propose to declare any interim dividend for the six months ended 30 September 2015 (six months ended 30 September 2014: Nil).

8. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic loss per share amounts is based on the loss for the period attributable to owners of the Company of HK\$9,776,000 (six months ended 30 September 2014: HK\$19,098,000) and the weighted average of 1,449,520,000 (six months ended 30 September 2014: 1,449,520,000) ordinary shares in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 September 2015. No adjustment has been made to the basic loss per share amount presented for the six months ended 30 September 2014 in respect of a dilution as the impact of the share options outstanding, where applicable, during that period had no dilutive effect on the basis loss per share amount presented.

* For identification purpose only

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of HK\$2,677,000 (six months ended 30 September 2014: HK\$6,364,000).

10. 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 2015 (Unaudited) HK\$'000	31 March 2015 (Audited) HK\$'000
Within 1 month	23,499	11,448
2 to 3 months	20,849	24,148
4 to 12 months	2,111	5,664
Over 12 months	–	–
	46,459	41,260

11. 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 the payment due date, is as follows:

	30 September 2015 (Unaudited) HK\$'000	31 March 2015 (Audited) HK\$'000
Current	35,351	30,958
Within 1 to 3 months overdue	1,792	3,243
Within 4 to 12 months overdue	1,853	361
Over 12 months overdue	2,138	1,434
	41,134	35,996

11. TRADE PAYABLES (Continued)

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

	30 September 2015 (Unaudited) <i>HK\$'000</i>	31 March 2015 (Audited) <i>HK\$'000</i>
Yunxian Tianlong Eco-Tea Company Limited® ("YTET") 雲縣天龍生態茶業有限責任公司	141	1,144
Changning Longrun Tea Company Limited® ("CLRT") 昌寧縣龍潤茶業有限公司	9,278	2,098
Fengqing Longrun Tea Company Limited® ("FLRT") 鳳慶龍潤茶業有限公司	10,987	1,821
Yunnan Longrun Tea Group Limited® ("LRTG") 雲南龍潤茶業集團有限公司	3,449	11,676
Yunnan Longrun Tea Development Company Limited® ("YLRT") 雲南龍潤茶業發展有限公司	1,136	1,244
	24,991	17,983

YTET, 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.

12. SHARE CAPITAL

	30 September 2015 (Unaudited) <i>HK\$'000</i>	31 March 2015 (Audited) <i>HK\$'000</i>
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

13. 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 2015, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	30 September 2015 (Unaudited) HK\$'000	31 March 2015 (Audited) HK\$'000
Within one year	194	208
In the second to fifth years, inclusive	1,025	988
	1,219	1,196

(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 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2015 (Unaudited) HK\$'000	31 March 2015 (Audited) HK\$'000
Within one year	10,557	12,855
In the second to fifth years, inclusive	12,795	25,380
After five years	10,940	58,771
	34,292	97,006

14. COMMITMENTS

In addition to the operating lease commitments detailed in note 13 above, the Group had the following commitments at the end of the reporting period:

	30 September 2015 (Unaudited) HK\$'000	31 March 2015 (Audited) HK\$'000
Contracted, but not provided for:		
Leasehold improvements	225	–
Authorised, but not contracted for:		
Land and buildings	24,376	25,008
	24,601	25,008

15. CONTINGENT LIABILITIES

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

16. 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	
		2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Sales of tea products to:			
Ideality Technology Group Company Limited ("ITGC")	(i), (iv)	11,419	7,628
Purchase of tea products from:			
CLRT	(iii), (iv)	15,397	16,567
FLRT	(iii), (iv)	18,602	7,997
YLRT	(iii), (iv)	846	1,323
LRTG	(ii), (iv)	11,131	34,303

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.

16. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

Notes: (Continued)

- (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 2015 and 2014 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").

(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\$982,000 (31 March 2015: HK\$733,000) and HK\$743,000 (31 March 2015: HK\$763,000), 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\$367,000 (31 March 2015: HK\$307,000) is unsecured, interest-free and has no fixed terms of repayment. YLRP is a wholly-owned subsidiary of Long Run Pharmaceuticals Group Limited, which is beneficially owned as to 90% and 10% by 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	
	2015	2014
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	3,910	3,900
Post-retirement benefits	51	57
Total compensation paid to key management personnel	3,961	3,957

17. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group's financial instruments as at 30 September 2015 and 31 March 2015 are approximate to their fair values.

18. EVENT AFTER THE REPORTING PERIOD

On 5 October 2015, the Group entered into a sale and purchase agreement with a related party, 雲南龍潤投資有限公司 (Yunnan Longrun Investment Company Limited*) ("YLRI"), which is beneficially owned as to 90% and 10% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang respectively, both are Directors of the Company, for the disposal of the entire equity interest in YNLF, a subsidiary of the Company, at a total consideration of HK\$52,000,000. This transaction has been approved by the independent shareholders at the extraordinary general meeting of the Company held on 16 November 2015. This transaction has not been completed as at the date of approval of this interim financial information and is expected to result in a gain on disposal before tax of approximately HK\$4,282,000.

19. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

This interim financial information was approved and authorised for issue by the board of directors on 20 November 2015.

** For identification purposes only*

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 2015 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.

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

20 November 2015



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the six months ended 30 September 2015, the revenue of the Group decreased by approximately 10.6% to approximately HK\$107,797,000 (six months ended 30 September 2014: HK\$120,555,000). The gross profit of the Group decreased by approximately 12.7% to approximately HK\$39,316,000 (six months ended 30 September 2014: HK\$45,027,000).

Other income and gains of the Group for the six months ended 30 September 2015 was approximately HK\$3,928,000 (six months ended 30 September 2014: HK\$6,420,000), decreased by approximately 38.8% over the corresponding period last year. The decrease was mainly due to the decrease in the fixed deposit interest income from banks in the PRC and the drop in RMB exchange rate.

Selling and distribution expenses of the Group decreased by approximately 20.2% from approximately HK\$43,830,000 for the six months ended 30 September 2014 to approximately HK\$34,968,000 for the six months ended 30 September 2015. Administrative expenses of the Group decreased by approximately 30.8% from approximately HK\$25,628,000 for the six months ended 30 September 2014 to approximately HK\$17,727,000 for the six months ended 30 September 2015. The impairment of intangible assets and property, plant and equipment for the year ended 31 March 2015 lead to the decrease of amortization in the amount of approximately HK2,442,000 and depreciation in the amount of approximately HK\$5,718,000 in selling and distribution expenses and administrative expenses.

Loss before tax for the six months ended 30 September 2015 of the Group decreased by 47.5% from approximately HK\$18,024,000 for the six months ended 30 September 2014 to approximately HK\$9,456,000 for the six months ended 30 September 2015. Loss attributable to owners of the Company for the six months ended 30 September 2015 amounted to approximately HK\$9,776,000 (six months ended 30 September 2014: loss of HK\$19,098,000). The decrease of loss for the period under review as compared to the corresponding period last year was mainly due to the decrease of amortization and depreciation in administrative expenses and selling and distribution expenses amounted to approximately HK\$8,160,000.

Basic loss per share was HK0.67 cent for the six months ended 30 September 2015 against loss per share of HK1.32 cents for the six months ended 30 September 2014.

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. For the period under review, the poor spending sentiment has been affecting the consumer market in the PRC continuously. In this regard, the Group started to explore additional distribution channels for its products. Since 2014, the Group has distributed its products through ITGC, which possesses a direct selling operating permit issued by the Ministry of Commerce of China. During the period under review, sales to ITGC amounted to approximately HK\$11,419,000 (six months ended 30 September 2014: HK\$7,628,000), representing a growth of approximately 49.7%. Revenue for the period from tea and other food products businesses was approximately HK\$73,036,000 (six months ended 30 September 2014: HK\$93,155,000), accounting for approximately 67.8% (six months ended 30 September 2014: 77.3%) of the Group’s total revenue.

Tea Shops

Our traditional and convenient tea products, i.e. tea cake, loose tea leaves, tea gift set, convenient tea cups, instance tea essence and tea bags, etc., are sold in traditional tea shops. The convenient tea shops are mostly in proximity to business centres and office buildings, and primarily sell and distribute convenient tea products for office use, such as convenient tea cups, instance tea essence and tea bags. As at 30 September 2015, the Group managed a network comprising a total of over 500 self-owned and franchised tea shops primarily located in Mainland China. Given the weakened consumer market in the PRC, the Group has been carefully reviewing and assisting its franchisees to consolidate their respective businesses. The management believes that its network management strategy 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 Outlets Targeting Tourists

Besides the traditional tea shops, the Group also focuses on the tourist market. The Group has been operating mega retail outlets in Yunnan Province 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
and Exhibition Center
(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, revenue from this division was approximately HK\$34,761,000 (six months ended 30 September 2014: HK\$27,400,000), accounting for approximately 32.2% (six months ended 30 September 2014: 22.7%) of the Group’s total revenue. The Group’s main revenue driver in this division was “Chen Xiang Lu Bai Lu Pian”(陳香露白露片), a “Yanta Pai”(雁塔牌) branded Chinese gastrointestinal medicine, which generated 9.0% (six months ended 30 September 2014: 6.8%) of the total revenue during the period under review.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

PROSPECTS

Although the PRC government endeavored to enhance political stability and lead economic development in Asia, the momentum of economy recovery is still weak and the latest bout of consumer sentiment remains pessimistic. In response to such challenging business environment, the Group will continue to monitor its cost structure closely and to formulate business strategies with a view to enhance its operational efficiency.

On 5 October 2015, the Group entered into a sale and purchase agreement with YLRI for the disposal of the entire equity interest in YNLF, an indirect wholly-owned subsidiary of the Company, at a total consideration of HK\$52,000,000. YLRI is beneficially owned as to 90% and 10% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang respectively, both are Directors of the Company. This transaction has been approved by the independent shareholders at the extraordinary general meeting of the Company held on 16 November 2015. The Directors considered that the disposal will enable the Group to be relieved from the significant additional capital expenditure related to the renewal of production licence of YNLF and the proceeds from this disposal will provide the Group with financial flexibility to further expand its existing business and to participate in new investment in the future.

Looking ahead, continuing slowdown of China's economy is inevitable in the near term. As a result, it is very likely that the general consumer market in China will continue to face uncertainties and remain challenging. Despite these uncertainties, the Group will continue to focus on brand building and will dedicate more efforts to explore other potential distribution platforms. Given the Group's strong financial position, the management will actively explore business opportunities that can enhance return for the shareholders in the medium term.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 September 2015, the Group had current assets of HK\$323,954,000 (31 March 2015: HK\$334,714,000) and cash and bank balances of HK\$139,792,000 (31 March 2015: HK\$81,936,000). The Group's current liabilities as at 30 September 2015 were HK\$117,110,000 (31 March 2015: HK\$113,093,000).

As at 30 September 2015, total equity was HK\$226,560,000 (31 March 2015: HK\$241,538,000). The Group had finance lease payables of HK\$902,000 as at 30 September 2015 (31 March 2015: HK\$175,000). The gearing ratio as at 30 September 2015, being the ratio of total liabilities to total equity, was 54.5% (31 March 2015: 49.6%).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

EMPLOYEES

As at 30 September 2015, the Group had 739 employees (31 March 2015: 784 employees).

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

CONTINGENT LIABILITIES

As at 30 September 2015, 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 2015, the Group's assets have not been pledged to secure banking facilities granted to the Group.

SUPPLEMENTARY INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 September 2015, the interests of the Directors in the shares of the Company which were required, pursuant to Section 352 of the Securities and Futures Ordinance (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 of Hong Kong Limited (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	805,804,500	55.59%
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 2015.

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 IN SHARES *(Continued)*

Save as disclosed above, as at 30 September 2015, 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, 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 IN SHARES

As at 30 September 2015, 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)	805,804,500	55.59%
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 IN 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 IN 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 2015.

SUPPLEMENTARY INFORMATION *(Continued)*

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES *(Continued)*

Save as disclosed above, as at 30 September 2015, no person, other than the Directors whose interests are set out in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN 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 is set out below:

- Mr. Guo Guoqing, an independent non-executive Director, was re-designated from the office of independent director to director of the board of directors of Gree Real Estate Co., Ltd. (stock code: 600185), a company listed on the Shanghai Stock Exchange, on 30 June 2015.

SHARE OPTIONS

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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

The Audit Committee of the Company, comprising 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 2015, including accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters.

SUPPLEMENTARY INFORMATION *(Continued)*

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 2015, 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 2015 due to another business engagement. In view of his absence, Dr. Chiu had arranged for Dr. Lu Pingguo, 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 THE DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding the Directors' dealings in the Company's securities (the "Code"). All Directors have confirmed, following specific enquiries by the Company, that they have fully complied with 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 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 2015.

By Order of the Board
Chiu Ka Leung
Chairman

Hong Kong, 20 November 2015