



LongRun
龍潤

LONGRUN TEA GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 2898

Interim Report | 2016



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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

P.O. Box 10008,
Willow House,
Cricket Square,
Grand Cayman KY1-1001,
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 ADVISER

As to Hong Kong law:

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

PRINCIPAL BANKERS

China Construction Bank (Asia)
Corporation Limited
Fubon Bank (Hong Kong) Limited
The Bank of East Asia, Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
P.O. Box 10008, Willow House,
Cricket Square,
Grand Cayman KY1-1001,
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 2016, together with the comparative figures for the corresponding period in 2015, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2016

		For the six months ended 30 September	
		2016	2015
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	2	66,189	107,797
Cost of sales		(37,356)	(68,481)
Gross profit		28,833	39,316
Other income and gains	3	2,735	3,928
Selling and distribution expenses		(17,313)	(34,968)
Administrative expenses		(14,088)	(17,727)
Other operating expenses		(4,732)	–
Finance costs	4	(20)	(5)
LOSS BEFORE TAX	5	(4,585)	(9,456)
Income tax expense	6	–	(320)
LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		(4,585)	(9,776)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY	8		
– Basic		(HK0.32 cent)	(HK0.67 cent)
– Diluted		(HK0.32 cent)	(HK0.67 cent)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2016

	For the six months ended 30 September	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
LOSS FOR THE PERIOD	(4,585)	(9,776)
OTHER COMPREHENSIVE LOSS		
<i>Items that may be reclassified subsequently to profit and loss:</i>		
Exchange differences on translation of foreign operations	(4,932)	(5,202)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(4,932)	(5,202)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	(9,517)	(14,978)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2016

		30 September 2016 (Unaudited) <i>HK\$'000</i>	31 March 2016 (Audited) <i>HK\$'000</i>
	Notes		
NON-CURRENT ASSET			
Property, plant and equipment	9	3,399	3,504
Total non-current asset		3,399	3,504
CURRENT ASSETS			
Inventories		5,327	3,816
Trade and bills receivables	10	34,228	49,387
Prepayments, deposits and other receivables		8,626	58,145
Tax recoverable		185	181
Time deposits with original maturity of more than three months		88,905	156,338
Cash and cash equivalents		145,439	53,053
Total current assets		282,710	320,920
CURRENT LIABILITIES			
Trade payables	11	11,097	28,455
Other payables and accruals		48,044	55,958
Finance lease payables		402	293
Due to related companies	16(b)(i)	1,222	644
Due to directors	16(b)(ii)	3,879	7,945
Total current liabilities		64,644	93,295

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

30 September 2016

	Notes	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
NET CURRENT ASSETS		218,066	227,625
TOTAL ASSETS LESS CURRENT LIABILITIES		221,465	231,129
NON-CURRENT LIABILITIES			
Finance lease payables		673	456
Deferred income		4,157	4,521
Total non-current liabilities		4,830	4,977
Net assets		216,635	226,152
EQUITY			
Equity attributable to owners of the Company			
Issued capital	12	72,476	72,476
Reserves		144,159	153,676
Total equity		216,635	226,152

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2016

	Attributable to owners of the Company						
	Issued capital	Share premium account	Contributed surplus	Statutory surplus reserve	Exchange fluctuation reserve	Accumulated losses	Total equity
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
At 1 April 2016	72,476	252,319*	300*	-*	8,704*	(107,647)*	226,152
Loss for the period	-	-	-	-	-	(4,585)	(4,585)
Other comprehensive loss for the period:							
Exchange differences on translation of foreign operations	-	-	-	-	(4,932)	-	(4,932)
Total comprehensive loss for the period	-	-	-	-	(4,932)	(4,585)	(9,517)
At 30 September 2016	72,476	252,319*	300*	-*	3,772*	(112,232)*	216,635
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

* These reserve accounts comprise the consolidated reserves of HK\$144,159,000 (31 March 2016: HK\$153,676,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2016

	For the six months ended 30 September	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash used in operations	(16,858)	(12,075)
Income tax paid	(11)	(1,961)
Net cash flows used in operating activities	(16,869)	(14,036)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,102	3,919
Purchases of items of property, plant and equipment	(425)	(1,785)
Proceeds from disposal of items of property, plant and equipment	168	84
Proceeds from disposal of a subsidiary	49,825	–
Decrease in short term time deposits with original maturity of more than three months	63,147	73,643
Net cash flows from investing activities	114,817	75,861
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital element of finance lease rental payments	(239)	(165)
Interest paid	(20)	(4)
Increase/(decrease) in amounts due to directors	(4,066)	902
Net cash flows from/(used in) financing activities	(4,325)	733

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

For the six months ended 30 September 2016

	For the six months ended 30 September	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET INCREASE IN CASH AND CASH EQUIVALENTS	93,623	62,558
Cash and cash equivalents at beginning of period	53,053	81,936
Effect of foreign exchange rate changes, net	(1,237)	(4,702)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	145,439	139,792
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	145,439	139,792
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	145,439	139,792

NOTES TO INTERIM FINANCIAL INFORMATION

30 September 2016

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

The condensed consolidated interim financial information for the six months ended 30 September 2016 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 2016. 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 2016, 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 HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	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 profit/(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, gain on disposal of items 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	
	2016	2015	2016	2015	2016	2015
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	3,935	34,761	62,254	73,036	66,189	107,797
Other revenue	17	151	927	1,497	944	1,648
Total	3,952	34,912	63,181	74,533	67,133	109,445
Segment results	(2,359)	(2,454)	2,441	(3,377)	82	(5,831)
Reconciliation:						
Interest income					1,599	2,196
Gain on disposal of items of property, plant and equipment, net					168	84
Impairment of property, plant and equipment					(303)	-
Other unallocated gains					24	-
Corporate and other unallocated expenses					(6,135)	(5,900)
Finance costs					(20)	(5)
Loss before tax					(4,585)	(9,456)

2. OPERATING SEGMENT INFORMATION *(Continued)*

(b) Geographical information

Revenue from external customers:

	For the six months ended 30 September	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The People's Republic of China (the "PRC"), excluding Hong Kong	58,961	98,000
Hong Kong	3,809	3,160
Elsewhere in Asia	3,419	6,637
	66,189	107,797

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

3. OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income		
Interest income	1,599	2,196
Franchise income	776	1,103
Others	192	545
	2,567	3,844
Gains		
Gain on disposal of items of property, plant and equipment, net	168	84
	2,735	3,928

4. FINANCE COSTS

	For the six months ended 30 September	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on finance leases	20	4
Others	–	1
	20	5

5. LOSS BEFORE TAX

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

	For the six months ended 30 September	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	37,049	66,517
Depreciation	711	2,321
Recognition of prepaid land lease payments	–	71
Write-down of provision of inventories to net realisable value, net	–	21
Impairment of trade receivables	5,614	887
Impairment of property, plant and equipment	303	–
Impairment of other receivables	59	–
Reversal of impairment of trade receivables	(1,225)	(137)

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 2015: 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	
	2016	2015
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Mainland China		
Charge for the period	–	481
Overprovision in prior years	–	(142)
Deferred tax credit	–	(19)
Total tax charge for the period	–	320

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:

雲南龍潤茶科技有限公司 (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 2015 to 2018 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 2016 (six months ended 30 September 2015: Nil).

[®] *Official name of this entity is in Chinese. The English translation of the name is for identification purpose only.*

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\$4,585,000 (six months ended 30 September 2015: HK\$9,776,000) and the weighted average of ordinary shares of 1,449,520,000 (six months ended 30 September 2015: 1,449,520,000) 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 2016 and 2015 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the periods ended 30 September 2016 and 2015.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of HK\$990,000 (six months ended 30 September 2015: HK\$2,677,000).

10. TRADE AND BILLS RECEIVABLES

The Group allows an average credit period ranging from 60 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 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
Within 1 month	10,245	7,910
2 to 3 months	8,870	28,511
4 to 12 months	15,113	12,966
	34,228	49,387

Included in the Group's trade receivables are trade receivables due from 理想科技集團有限公司 (Ideality Technology Group Company Limited)* ("ITGC"), a related party of the Group, of HK\$4,571,000 (31 March 2016: HK\$4,860,000), which are repayable on similar credit terms to those offered to the major customers of the Group.

* Official name of this entity is in Chinese. The English translation of the name is for identification purpose only.

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 as at the end of the reporting period, based on the payment due date, is as follows:

	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
Current	10,565	5,932
Within 1 to 3 months overdue	–	20,614
Within 4 to 12 months overdue	10	1,383
Over 12 months overdue	522	526
	11,097	28,455

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

	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
Yunnan Longrun Tea Development Company Limited® ("YLRT") 雲南龍潤茶業發展有限公司	–	1,313
Yunnan Longrun Tea Group Company Limited® ("LRTG") 雲南龍潤茶業集團有限公司	5,469	11,636
Fengqing Longrun Tea Company Limited® ("FLRT") 鳳慶龍潤茶業有限公司	2,627	5,991
Changning Longrun Tea Company Limited® ("CLRT") 昌寧縣龍潤茶業有限公司	2,242	8,935
Yunnan Long Far Pharmaceutical Company Limited® ("YNLF") 雲南龍發製藥有限公司	215	–
	10,553	27,875

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

11. TRADE PAYABLES (Continued)

FLRT and CLRT are wholly-owned subsidiaries of LRTG. LRTG is beneficially owned as to 97% and 3% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively. YLRT is beneficially owned as to 77% and 23% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively. YNLF is beneficially owned as to 89.4% and 10% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.

12. SHARE CAPITAL

	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (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

13. NOTE TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction

During the period, the Group entered into a finance lease arrangement in respect of property, plant and equipment with a total capital value at the inception of the lease of HK\$565,000 (six months ended 30 September 2015: HK\$892,000).

14. OPERATING LEASES COMMITMENTS

(a) As lessor

The Group leases part of its direct sales shops under operating lease arrangements, 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 2016, the Group had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
Within one year	171	173
In the second to fifth years, inclusive	804	922
	975	1,095

(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 ten years.

At 30 September 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
Within one year	7,792	10,383
In the second to fifth years, inclusive	14,538	17,745
After five years	740	2,289
	23,070	30,417

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	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Sales of tea products to:			
ITGC	(i), (vi)	4,614	11,419
Purchases of tea products from:			
CLRT	(iii), (vi)	8,050	15,397
FLRT	(iii), (vi)	9,207	18,602
YLRT	(iv), (vi)	105	846
LRTG	(ii), (vi)	20,033	11,131
		37,395	45,976
Purchase of pharmaceutical products from:			
YNLF	(v), (vi)	182	–
Rental expense incurred to:			
YLRT	(iv), (vi)	247	260

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 97% and 3% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.
- (iii) The companies are wholly-owned subsidiaries of LRTG.
- (iv) YLRT is beneficially owned as to 77% and 23% by Dr. Chui Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.
- (v) YNLF is beneficially owned as to 89.4% and 10% by Dr. Chiu Ka Leung and Mr. Jiao Shaoliang, directors of the Company, respectively.
- (vi) The transactions were conducted at rates mutually agreed between the relevant parties.

16. RELATED PARTY TRANSACTIONS (Continued)

(a) (Continued)

The above transactions in respect of the sales of tea products and the purchases of tea products entered into by the Group during the six-month periods ended 30 September 2016 and 2015 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 amount due to a related company, YLRT, of HK\$1,113,000 (31 March 2016: HK\$552,000) is unsecured, interest-free and has no fixed terms of repayment.

The amount due to a related company, 雲南龍潤藥業有限公司 (Yunnan Longrun Pharmaceuticals Company Limited)* (“YLRP”), of HK\$109,000 (31 March 2016: HK\$92,000) is unsecured, interest-free and has no fixed terms of repayment. YLRP is a wholly-owned subsidiary of 龍潤藥業集團有限公司 (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.

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

(c) Compensation of key management personnel of the Group

	For the six months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Short term employee benefits	3,936	3,910
Post-retirement benefits	51	51
Total compensation paid to key management personnel	3,987	3,961

17. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group's financial instruments as at 30 September 2016 and 31 March 2016 are approximate to their fair values.

18. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

This interim financial information was approved and authorised for issue by the board of directors on 18 November 2016.

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 2016 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

18 November 2016



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the six months ended 30 September 2016, the revenue of the Group decreased by approximately 38.6% to approximately HK\$66,189,000 (six months ended 30 September 2015: HK\$107,797,000). The gross profit of the Group decreased by approximately 26.7% to approximately HK\$28,833,000 (six months ended 30 September 2015: HK\$39,316,000). The decreases in revenue and gross profit were mainly attributable to the disposal of the Group's PRC pharmaceutical business in November 2015.

Other income and gains of the Group for the six months ended 30 September 2016 was approximately HK\$2,735,000 (six months ended 30 September 2015: HK\$3,928,000), decreased by approximately 30.4% 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 weakened Renminbi exchange rate.

Selling and distribution expenses of the Group decreased by approximately 50.5% from approximately HK\$34,968,000 for the six months ended 30 September 2015 to approximately HK\$17,313,000 for the six months ended 30 September 2016. Administrative expenses of the Group decreased by approximately 20.5% from approximately HK\$17,727,000 for the six months ended 30 September 2015 to approximately HK\$14,088,000 for the six months ended 30 September 2016. The decrease in selling and distribution expenses and administrative expenses were mainly attributable to: (i) the decrease in expenses of about HK\$12,666,000 for the six months ended 30 September 2016 resulted in the disposal of the Group's PRC pharmaceutical business and the closed down of tea shops; (ii) the decrease in salaries associated with a drop in the headcount; and (iii) the weakened Renminbi exchange rate.

Other operating expenses of the Group increased to approximately HK\$4,732,000 for the six months ended 30 September 2016 (six months ended 30 September 2015: Nil). The substantial increase was mainly due to the impairment of trade receivables and property, plant and equipment in respect of the tea and other food products businesses. However, these impairments had no impact on the cash flow of the Group as they were non-cash expenses.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL RESULTS *(Continued)*

Loss before tax of the Group decreased by approximately 51.5% from approximately HK\$9,456,000 for the six months ended 30 September 2015 to approximately HK\$4,585,000 for the six months ended 30 September 2016. Loss attributable to owners of the Company for the six months ended 30 September 2016 amounted to approximately HK\$4,585,000 (six months ended 30 September 2015: loss of HK\$9,776,000). The decrease of loss for the period under review as compared to the corresponding period last year was mainly due to (i) the disposal of subsidiaries which incurred loss in the prior period; and (ii) the closed down of tea shops.

Basic loss per share was HK0.32 cent for the six months ended 30 September 2016 against basic loss per share of HK0.67 cent for the six months ended 30 September 2015.

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 continued to affect the consumer market in the PRC generally. Revenue for the period from tea and other food products businesses was approximately HK\$62,254,000 (six months ended 30 September 2015: HK\$73,036,000), accounting for approximately 94.1% (six months ended 30 September 2015: 67.8%) 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 2016, the Group managed a network comprising a total of over 500 self-owned and franchised tea shops primarily located in Mainland China. Given the challenging consumer market in the PRC, the management believes that its active network management strategy with a view to enhance brand and product recognitions in the PRC will benefit the Group in the future.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

Mega Retail Outlets Targeting Tourists

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 healthcare and pharmaceutical businesses was approximately HK\$3,935,000 (six months ended 30 September 2015: HK\$34,761,000), accounting for approximately 5.9% (six months ended 30 September 2015: 32.2%) of the Group’s total revenue. The substantial decrease was mainly attributable to the disposal of the Group’s PRC pharmaceutical business in November 2015. “Beauty and Healthy”(排毒美顏寶) is the Group’s major revenue contributor in this segment, accounting for 5.6% (six months ended 30 September 2015: 2.6%) of the total revenue during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

PROSPECTS

The cautious consumer sentiment in the PRC has been adversely affecting the domestic retail market. Looking ahead, continuing slowdown of China's economy is inevitable in the near term. The Group's operating environment will remain very challenging. The Group will continue to tackle the challenges amidst slowdown in economic growth in the PRC by enhancing its efficiency through effective management across its operations. Following the disposal of the Group's PRC pharmaceutical business, the Group will actively explore business opportunities and participate in potential investments with a view to enhance shareholders' value.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 30 September 2016, the Group had current assets of HK\$282,710,000 (31 March 2016: HK\$320,920,000) and cash and cash equivalents of HK\$145,439,000 (31 March 2016: HK\$53,053,000). The Group's current liabilities as at 30 September 2016 were HK\$64,644,000 (31 March 2016: HK\$93,295,000).

As at 30 September 2016, total equity was HK\$216,635,000 (31 March 2016: HK\$226,152,000). The Group had finance lease payables of HK\$1,075,000 as at 30 September 2016 (31 March 2016: HK\$749,000). The gearing ratio as at 30 September 2016, being the ratio of total liabilities to total equity, was 32.1% (31 March 2016: 43.5%).

EMPLOYEES

As at 30 September 2016, the Group had 377 employees (31 March 2016: 413 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.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

CONTINGENT LIABILITIES

As at 30 September 2016, 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 2016, 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 2016, 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	39,005,500	2.69%
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 2016.

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 2016, none of the Directors or chief executive of the Company had registered an interest or a 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 2016, 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 2016.

SUPPLEMENTARY INFORMATION *(Continued)*

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES *(Continued)*

Save as disclosed above, as at 30 September 2016, 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.

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 2016, 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 2016, 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 29 August 2016 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 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 2016.

By Order of the Board
Chiu Ka Leung
Chairman

Hong Kong, 18 November 2016