LONGRUN TEA GROUP COMPANY LIMITED
龍 潤 茶 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2898)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The board (the "Board") of directors (the "Directors") of Longrun Tea Group Company Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2018, together with the comparative figures for the corresponding period in 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2018

		For the six months ended 30 September	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*2*	**56,644**	45,261
Cost of sales		**(40,816)**	(27,088)
Gross profit		**15,828**	18,173

		For the six months ended 30 September	
		2018	2017
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Other income and gains	*3*	**7,017**	1,899
Interest income from loan receivable		**–**	666
Selling and distribution expenses		**(17,025)**	(14,009)
Administrative expenses		**(14,920)**	(15,122)
Other operating expenses		**(4,237)**	(12)
Finance costs	*4*	**(5,655)**	(5,009)
Loss before tax	*5*	**(18,992)**	(13,414)
Income tax expense	*6*	**(720)**	(7)
Loss for the period attributable to owners of the Company		**(19,712)**	(13,421)
Loss per share attributable to owners of the Company	*8*		
– Basic		**HK(1.36) cents**	HK(0.92) cent
– Diluted		**HK(1.36) cents**	HK(0.92) cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss for the period	**(19,712)**	(13,421)
Other comprehensive (loss)/income		
Items that may be reclassified subsequently to profit and loss:		
Changes in fair value of available-for-sale financial assets	**–**	(150)
Exchange differences arising on translation of foreign operations	**(12,251)**	5,297
Other comprehensive (loss)/income for the period, net of income tax	**(12,251)**	5,147
Total comprehensive loss for the period attributable to owners of the Company	**(31,963)**	(8,274)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2018

	Notes	30 September 2018 (Unaudited) HK$'000	31 March 2018 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	*9*	**4,501**	2,401
Available-for-sale financial assets		**–**	7,500
Total non-current assets		**4,501**	9,901
Current assets			
Inventories		**4,793**	2,119
Trade receivables	*10*	**28,801**	27,010
Prepayments, deposits and other receivables		**8,721**	8,967
Time deposits with original maturities of more than three months		**–**	96,313
Cash and cash equivalents		**214,286**	153,336
Total current assets		**256,601**	287,745
Current liabilities			
Trade payables	*11*	**1,038**	1,661
Other payables, accruals and receipts in advance		**30,319**	48,435
Contract liabilities		**12,759**	–
Finance lease payables		**115**	267
Convertible bonds	*12*	**62,632**	58,767
Income tax payables		**722**	2
Due to related companies		**177**	168
Due to directors of the Company		**1,727**	3,750
Total current liabilities		**109,489**	113,050

	Notes	30 September 2018 (Unaudited) HK$'000	31 March 2018 (Audited) HK$'000
Net current assets		**147,112**	174,695
Total assets less current liabilities		**151,613**	184,596
Non-current liabilities			
Finance lease payables		**142**	200
Deferred income		**–**	186
Contract liabilities		**64**	–
Total non-current liabilities		**206**	386
Net assets		**151,407**	184,210
Equity			
Equity attributable to owners of the Company			
Share capital	*13*	**72,576**	72,576
Reserves		**78,831**	111,634
Total equity		**151,407**	184,210

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2018

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

The condensed consolidated interim financial information for the six months ended 30 September 2018 of the Group has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The preparation of the condensed consolidated interim financial information in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This condensed consolidated interim financial information contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 March 2018 that is included in the condensed consolidated interim financial information as comparative information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2018 are available from the Company's principal place of business in Hong Kong. The auditor has disclaimed an opinion on those financial statements in its report dated 10 October 2018.

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 2018. The accounting policies and methods of computation adopted in the preparation of the condensed consolidated interim financial information are the same as those used in the annual financial statements for the year ended 31 March 2018, except in relation to the following new and revised HKFRSs as explained below.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 April 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments
HK(IFRIC)-Int. 22	Foreign Currency Transactions and Advance Consideration
HKFRS 2 Amendments	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 Amendments	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 1 and HKAS 28 Amendments	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
HKAS 40 Amendments	Transfers of Investment Property

The new and amendments to HKFRSs have been applied in accordance with the relevant transitional provisions in the respective standards and amendments which resulted in changes in accounting policies, amounts reported and/or disclosures as described below. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

1.1 Impacts and changes in accounting policies on application of HKFRS 9 Financial Instruments

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

1.1.1. Key changes in accounting policies resulting from application of HKFRS 9

(i) Classification and measurement of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVTOCI") and at fair value through profit or loss ("FVTPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The Directors reviewed and assessed the Group's financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 1.1.2. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities.

(ii) Expected credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the incurred loss accounting model in HKAS 39.

The Group apply the new ECL model to financial assets measured at amortised cost (including time deposits with original maturities of more than three months, cash and cash equivalents, trade receivables and deposits and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expect to receive).

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

The Group applies the simplified approach to provide for ECL prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade receivables. The ECL on these financial assets are assessed collectively using a provision matrix with appropriate groupings based on shared credit risk characteristics. Future cash flows of each group receivables are estimated on the basis of historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forward-looking economic conditions.

For all other instruments, the Group measures the loss allowance equal to 12-month ECLs, unless when there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount.

As at 1 April 2018, the Directors reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 1.1.2.

1.1.2 *Summary of effects arising from initial application of HKFRS 9*

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 April 2018.

	Notes	Available-for-sale financial assets *HK$'000*	Financial assets at FVTPL *HK$'000*	Trade receivables *HK$'000*	Accumulated losses *HK$'000*	Exchange fluctuation reserve *HK$'000*
Closing balances at 31 March 2018 – HKAS 39		7,500	–	27,010	173,980	(13,635)
Effects arising from initial application of HKFRS 9:						
Reclassification						
From available-for-sale financial assets	*(a)*	(7,500)	7,500	–	–	–
Re-measurement						
Impairment under ECL model	*(b)*	–	–	(840)	797	43
Opening balances at 1 April 2018 – HKFRS 9		–	7,500	26,170	174,777	(13,592)

(a) Available-for-sale financial assets

At the date of initial application of HKFRS 9, the Group's equity investments of HK$7,500,000 were reclassified from available-for-sale financial assets to financial assets at FVTPL. No fair value change relating to those equity investments was adjusted to financial assets at FVTPL and accumulated losses as at 1 April 2018 as the amount was previously carried at fair value. Since the Group did not have accumulated asset revaluation reserve relating to those equity investments as at 31 March 2018, thus no transfer between asset revaluation reserve and accumulated losses is required upon initial application of HKFRS 9.

(b) Impairment under ECL model

The application of the ECL model of HKFRS 9 resulted in earlier provision of credit losses which are not yet incurred in relation to the Group's trade receivables. Such additional impairment recognised under ECL model increased the expected credit loss allowances by approximately HK$840,000 as at 1 April 2018. As a result, as at 1 April 2018, corresponding adjustments are recognised to increase the opening accumulated losses by approximately HK$797,000 and to reduce exchange fluctuation reserve by approximately HK$43,000.

The following table reconciles the impairment allowance measured in accordance with HKAS 39 (under incurred loss model) as at 31 March 2018 to the expected credit loss allowance measured in accordance with HKFRS 9 as at 1 April 2018:

	Impairment allowance under HKAS 39	**Effect of adoption of HKFRS 9**	**Expected credit loss allowance under HKFRS 9**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	23,084	840	23,924

The Group has applied HKFRS 9 in accordance with the transitional provisions set out in HKFRS 9, which was adopted retrospectively without restating comparative information. The new classification and the new impairment rules are therefore not reflected in the condensed consolidated statement of financial position as at 31 March 2018, but are recognised as adjustment to the opening retained earnings as at 1 April 2018.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement ("HKAS 39").

1.2 Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue ("HKAS 18"), HKAS 11 Construction Contracts ("HKAS 11") and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 April 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

1.2.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a goods or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

1.2.2 Summary of effects arising from initial application of HKFRS 15

The application of HKFRS 15 has no material impact on the Group's accumulated losses as at 1 April 2018. The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position as at 1 April 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported as at 31 March 2018	Reclassification	Carrying amounts under HKFRS 15 as at 1 April 2018
	HK$'000	*HK$'000*	*HK$'000*
		(Note)	
Current liabilities			
Other payables, accruals and receipts in advance	48,435	(18,706)	29,729
Contract liabilities	–	18,706	18,706
Non-current liabilities			
Deferred income	186	(186)	–
Contracts liabilities	–	186	186

Note: At the date of initial application, included in other payables, accruals and receipts in advance was receipts in advance from customers and deferred income in respect of franchise income of HK$18,706,000 and included in deferred income (non-current liabilities) was deferred income in respect of franchise income of HK$186,000. This balance was reclassified to contract liabilities upon application of HKFRS 15.

Without application of HKFRS 15, as at 30 September 2018, the contract liabilities of HK$12,759,000 in respect of receipts in advance from customers and HK$64,000 in respect of franchise income would be included in other payables, accruals and receipts in advance.

Except as described above, the application of other amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated interim financial information.

2. REVENUE AND 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 "Distribution of pharmaceutical products" segment engages in the trading and distribution of pharmaceutical products; and

(b) the "Distribution of tea and other food products" segment engages in the trading and distribution of tea and other food products.

The Directors monitor 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 represents the loss from each segment without allocation of that bank interest income, interest income from loan receivable, gain on disposal of financial assets at fair value through profit or loss, finance costs, write off of items of property, plant and equipment, gain on disposal of items of property, plant and equipment, net, as well as head office and corporate expenses.

(a) Operating segments

	For the six months ended 30 September					
	Distribution and trading of pharmaceutical products		Distribution and trading of tea and other food products		Total	
	2018	2017	**2018**	2017	**2018**	2017
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**2,614**	2,795	**54,030**	42,466	**56,644**	45,261
Other income	**–**	101	**684**	1,221	**684**	1,322
Total	**2,614**	2,896	**54,714**	43,687	**57,328**	46,583
Segment results	**(3,649)**	(3,258)	**(10,130)**	761	**(13,779)**	(2,497)
Reconciliation:						
Bank interest income					**912**	556
Gain on disposal of items of property, plant and equipment, net					**30**	21
Interest income from loan receivable					**–**	666
Gain on disposal of financial assets at fair value through profit or loss					**5,391**	–
Write off of items of property, plant and equipment					**–**	(5)
Corporate and other unallocated expenses					**(5,891)**	(7,146)
Finance costs					**(5,655)**	(5,009)
Loss before tax					**(18,992)**	(13,414)

(b) Geographical information

Revenue from external customers:

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
The People's Republic of China (the "PRC"), excluding Hong Kong	**49,839**	38,613
Hong Kong	**2,614**	2,795
Elsewhere in Asia	**3,996**	1,754
United States of America	**195**	2,099
	56,644	45,261

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

3. OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Other income		
Bank interest income	**912**	556
Franchise income	**632**	771
Subsidy income^	**–**	391
Others	**52**	160
	1,596	1,878
Gains		
Gain on disposal of items of property, plant and equipment, net	**30**	21
Gain on disposal of financial assets at fair value through profit or loss	**5,391**	–
	5,421	21
	7,017	1,899

^ *Various one-off government subsidies are provided regarding the expenditures incurred by the Group's subsidiaries regarding as "high and new technology enterprises" in Yunnan Province, the PRC which had been already expensed in profit or loss. There are no unfulfilled conditions or contingencies related to these subsidies.*

4. FINANCE COSTS

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on finance leases	**8**	15
Effective interest expense on convertible bonds *(note 12)*	**5,647**	4,994
	5,655	5,009

5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories recognised as an expense	**40,009**	26,922
Depreciation	**909**	501
Write off of items of property, plant and equipment	**–**	5
Provision for slow-moving and obsolete inventories	**25**	–
Expected credit losses of trade receivables	**4,237**	–

6. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at 8.25% for the first HK$2 million of profits of qualifying corporation and at 16.5% for the profit above HK$2 million (2017: Nil). Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods. 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	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – PRC Enterprise Income Tax ("EIT")		
– For the current period	**–**	4
– Under-provision in prior years	**–**	3
Current – Hong Kong Profits Tax	**720**	–
Total income tax charge for the period	**720**	7

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 the PRC, a subsidiary of the Company in the PRC enjoys 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, is qualified as High and New Technology Enterprise which is entitled to a reduced preferential EIT rate of 15% for a 3-year period from 31 July 2015 to 30 July 2018 according to the Detailed Implementation Rules of the EIT Law.

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

7. INTERIM DIVIDEND

The Directors did not recommend the payment of any interim dividend for the six months ended 30 September 2018 (2017: 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 six months ended 30 September 2018 attributable to owners of the Company of approximately HK$19,712,000 (2017: HK$13,421,000) and the weighted average number of ordinary shares of approximately 1,451,520,000 (2017: 1,451,520,000) in issue during the period.

For the six months ended 30 September 2018 and 2017, the computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds and exercise of outstanding share options since their assumed exercise would result in a decrease in loss per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2018, the Group acquired property, plant and equipment of approximately HK$3,259,000 (six months ended 30 September 2017: HK$452,000).

10. TRADE RECEIVABLES

	30 September 2018 (Unaudited) ***HK$'000***	31 March 2018 (Audited) *HK$'000*
Trade receivables	**54,664**	50,094
Less: impairment losses	**(25,863)**	(23,084)
	28,801	27,010

The Group allows an average credit period ranging from 30 to 90 days (31 March 2018: 30 to 90 days) to its customers. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables, net of impairment as at the end of the reporting period, based on invoice dates, is as follows:

	30 September 2018 (Unaudited)	31 March 2018 (Audited)
	HK$'000	*HK$'000*
Within 1 month	**11,902**	4,859
Over 1 month but less than 3 months	**5,372**	6,429
Over 3 months but less than 1 year	**10,754**	14,580
Over 1 year	**773**	1,142
	28,801	27,010

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)[@] ("Ideality Group"), a related party of the Group which is beneficially owned as to 85.5% and 14.5% by Dr. Chiu Ka Leung ("Dr. Chiu") and Mr. Jiao Shaoliang ("Mr. Jiao"), respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also a substantial shareholder of the Company, of approximately HK$1,773,000 (31 March 2018: HK$5,329,000), which are repayable on similar credit terms to those offered to the major customers of the Group. Included in the balances due from Ideality Group, there are approximately HK$1,773,000 (31 March 2018: HK$2,350,000) which are past due at the end of the reporting period. Part of these balances as at 30 September 2018 are settled subsequent to the end of the reporting period.

@ *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 on 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 2018 (Unaudited) *HK$'000*	31 March 2018 (Audited) *HK$'000*
Current and not yet due	**402**	1,176
Within 1 to 3 months overdue	**155**	2
Within 4 to 12 months overdue	**–**	–
Over 12 months overdue	**481**	483
	1,038	1,661

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

	30 September 2018 (Unaudited) *HK$'000*	31 March 2018 (Audited) *HK$'000*
Yunnan Longrun Tea Group Company Limited[@] ("LRTG") 雲南龍潤茶業集團有限公司	**68**	646
Fengqing Longrun Tea Company Limited[@] ("FLRT") 鳳慶龍潤茶業有限公司	**18**	397
Changning Longrun Tea Company Limited[@] ("CLRT") 昌寧縣龍潤茶業有限公司	**10**	128
Yunnan Long Far Pharmaceutical Company Limited[@] ("YNLF") 雲南龍發製藥股份有限公司 (前稱「雲南龍發製藥有限公司」)	**438**	33
	534	1,204

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

FLRT and CLRT are wholly-owned subsidiaries of LRTG. LRTG is beneficially owned as to 97% and 3% by Dr. Chiu and Mr. Jiao respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also a substantial shareholder of the Company. YNLF is beneficially owned as to 89.4% and 10% by Dr. Chiu and Mr. Jiao respectively. Both Dr. Chiu and Mr. Jiao are executive directors and shareholders of the Company, while Dr. Chiu is also a substantial shareholder of the Company. The trade payables due to related parties are non-interest-bearing and are normally settled on 90-day terms.

12. CONVERTIBLE BONDS

On 27 January 2017, the Company issued 5.5% convertible bonds which are denominated in Hong Kong dollars with an aggregate principal amount of HK$64,800,000 (the "Convertible Bonds") for cash to the independent third parties.

The Convertible Bonds will be matured on the second anniversary of the date of issue and the conversion price is HK$0.27 per share subject to anti-dilutive adjustments. Neither the Company nor the holders of the Convertible Bonds may demand early redemption. And the Convertible Bonds bear interests at 5.5% per annum on the outstanding principal amount and would be payable semi-annually in arrears until the Convertible Bonds are converted or matured. Unless previously converted or cancelled, upon maturity of the Convertible Bonds, the Company will pay to the holders of the Convertible Bonds an amount equal to the aggregate of 100% of the principal amount of the Convertible Bonds outstanding and interest accrued and outstanding pursuant to the terms and conditions of the Convertible Bonds.

Details of the Convertible Bonds are set out in the announcements of the Company dated 11 December 2016, 19 January 2017, 27 January 2017 and 6 February 2017.

The Convertible Bonds are treated as a compound financial instrument, and the fair value of the liability component on initial recognition was determined at date of issuance of the Convertible Bonds with reference to a professional valuation performed by a professional independent valuer.

The fair value of the liability component on initial recognition was derived from present value of future cash flows discounted at the effective interest rate, which is estimated with reference to the yields of market instruments with similar credit qualities and time to maturities, and is subject to the adjustment of relevant risk premium and subsequently measured at amortised cost. The residual amount, representing the value of the equity conversion component, was included in convertible bonds equity reserve.

The Convertible Bonds recognised were calculated as follows:

	HK$'000
Equity component	
At 31 March 2018 (audited) and 30 September 2018 (unaudited)	12,549

	30 September 2018 (Unaudited)	31 March 2018 (Audited)
	HK$'000	*HK$'000*
Liability component		
At the beginning of the period/year	**58,767**	52,032
Effective interest expense	**5,647**	10,299
Interest paid	**(1,782)**	(3,564)
Liability component at the end of the period/year	**62,632**	58,767

The effective interest rate of the liability component on initial recognition and the subsequent measure of interest expense on the Convertible Bonds is calculated using effective interest rate of approximately 19% per annum.

13. SHARE CAPITAL

	30 September 2018	31 March 2018
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Authorised:		
5,000,000,000 ordinary shares of HK$0.05 each	**250,000**	250,000

	Number of ordinary Shares of HK$0.05 each	**Amount**
		HK$'000
Issued and fully paid:		
At 31 March 2018 (audited) and 30 September 2018 (unaudited)	1,451,520,000	72,576

14. EQUITY COMPENSATION PLANS

Share Option Scheme

The Company operates a share option scheme adopted by the Company on 17 August 2012 with a resolution passed at the annual general meeting (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Scheme became effective on 17 August 2012 and, unless otherwise cancelled or amended, would remain in force for 10 years from that date. The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Scheme is 144,952,000, representing approximately 10% of the shares of the Company in issue as at the date of adoption of the Scheme and the date of approval of these consolidated financial statements.

The maximum number of shares issuable under share options granted to each eligible participant in the Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

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

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

On 25 November 2016, the Company granted total of 53,400,000 share options to executive directors and independent non-executive directors of the Company and certain other employees of the Group under the Scheme, pursuant to which the Company agreed to grant each of them an option to subscribe for shares of the Company in the consideration of HK$0.3 each with no fulfilment of the conditions under the Scheme. The grant of the options is part of the incentive offered to the grantees for their past contribution to the diversification of the business of the Group to the food and beverage sector and the supervision of the acquired tea and other food product business.

During the year ended 31 March 2017, 2,000,000 share options were exercised.

No share options were granted, exercised or lapsed under the Scheme during both of the six months ended 30 September 2018 and 2017.

At 30 September 2018, 51,400,000 share options were outstanding under the Scheme.

The closing price of the Company's share immediately before the date of grant of the options was HK$0.3 and the estimated fair value of each share under each share option at the date of grant is HK$0.1323 and HK$0.0904 for directors and employees respectively, were calculated using Black-Scholes Pricing Model performed by a professional independent valuer, taking into account the terms and conditions upon which the share options were granted. The assumptions used for the calculation are as follows:

Closing share price at date of grant	HK$0.3
Exercise price	HK$0.3
Expected volatility	52.99%
Expected option life	5 years
Expected dividend yield	0%
Risk-free interest rate	1.11%

The variables and assumptions used above were based on the best estimate of an independent professional valuer. The expected volatility was based on the historical daily volatility of the Company's stock price (calculated based on the remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends were based on historical dividends. Change in the subjective input assumptions could materially affect the fair value estimate.

There are no vesting period and condition regarding the share option granted.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the six months ended 30 September 2018, revenue of the Group increased by approximately 25.1% to approximately HK$56,644,000 (six months ended 30 September 2017: HK$45,261,000). The increase was mainly due to the increase in sales derived from the direct selling platform.

Gross profit of the Group decreased by approximately 12.9% to approximately HK$15,828,000 for the six months ended 30 September 2018 (six months ended 30 September 2017: HK$18,173,000). The decrease in gross profit is mainly attributable to the difficult operating environment brought by (i) the continuous modification of rules and regulations by the local government on tourism related selling activities; and (ii) a lower profit margin derived from the sales related to the direct selling platform.

Other income and gains of the Group for the six months ended 30 September 2018 was approximately HK$7,017,000 (six months ended 30 September 2017: HK$1,899,000), increased by approximately 269.5% over the corresponding period last year. The increase was mainly resulted from the gain on disposal of the Group's financial assets at fair value through profit or loss of approximately HK$5,391,000.

Selling and distribution expenses of the Group increased by approximately 21.5% from approximately HK$14,009,000 for the six months ended 30 September 2017 to approximately HK$17,025,000 for the six months ended 30 September 2018. The increase was mainly resulted from increase in advertising and rental expenses.

Administrative expenses of the Group for the six months ended 30 September 2018 amounted to approximately HK$14,920,000 (six months ended 30 September 2017: HK$15,122,000), which maintained at similar level compared to the corresponding period last year.

Other operating expenses of the Group increased to approximately HK$4,237,000 for the six months ended 30 September 2018 (six months ended 30 September 2017: HK$12,000). Such increase was mainly due to the increase in allowance for expected credit losses of trade receivables.

Loss before tax of the Group increased by approximately 41.6% from approximately HK$13,414,000 for the six months ended 30 September 2017 to approximately HK$18,992,000 for the six months ended 30 September 2018.

Income tax expense of the Group increased to approximately HK$720,000 for the six months ended 30 September 2018 (six months ended 30 September 2017: HK$7,000). The increase was resulted from income tax provided for the gain on disposal of the Group's financial assets at fair value through profit or loss.

Loss for the period attributable to owners of the Company for the six months ended 30 September 2018 amounted to approximately HK$19,712,000 (six months ended 30 September 2017: loss of HK$13,421,000). The increase of loss for the period under review as compared to the corresponding period last year was mainly due to the decrease in gross profit resulting from the decrease in overall profit margin.

Basic loss per share was HK1.36 cents for the six months ended 30 September 2018 against basic loss per share of HK0.92 cent for the six months ended 30 September 2017.

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 had continued to affect the consumer market in the PRC generally. Revenue for the period from tea and other food products businesses was approximately HK$54,030,000 (six months ended 30 September 2017: HK$42,466,000), accounting for approximately 95.4% (six months ended 30 September 2017: 93.8%) 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. As at 30 September 2018, the Group managed a network comprising a total of over 600 tea shops (self-owned and franchised) located in Mainland China. Given the challenging consumer market, the management will continue to actively manage the network with a view to enhance brand and product recognitions in the PRC.

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 three Mega Retail Outlets in Kunming, Yunnan Province with a gross total area over 10,000 square meters. Given the continuous modification of rules and regulations by the local government of tourism related selling activities, the operating environment of tourists related retail sales will continue to be very challenging in the future.

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
Lijiang City（麗江市）	The world famous "Old Town of Lijiang" which is a UNESCO Heritage Site

Direct Selling

During the period under review, the Group started to supply tailor made tea products to one of the largest direct selling enterprises in the PRC, which contributed to the increase in revenue generated from direct selling platform as compared to the corresponding period last year. The Group will continue to strengthen its business relationship with this new customer by deploying more resources in new product development.

Healthcare and Pharmaceutical Business

During the period under review, revenue from healthcare and pharmaceutical businesses was approximately HK$2,614,000 (six months ended 30 September 2017: HK$2,795,000), accounting for approximately 4.6% (six months ended 30 September 2017: 6.2%) of the Group's total revenue.

Prospects

The Group's operating environment remains very challenging. Traditional retail sales of consumer goods in the PRC has been under tremendous pressure, showing a continuous slowdown. It is likely that the general consumer market in China will continue to face uncertainties and remain very competitive.

Despite the uncertainties, the Group will continue to focus on brand building, new product development and new distribution channel development. In addition, the Group will continue to explore opportunities to set up our own tea manufacturing base in Yunnan Province with a view to reduce reliance on our suppliers.

Liquidity and Financial Resources

The Group has consistently maintained sufficient working capital. As at 30 September 2018, the Group had current assets of HK$256,601,000 (31 March 2018: HK$287,745,000) and cash and cash equivalents of HK$214,286,000 (31 March 2018: HK$153,336,000). The Group's current liabilities as at 30 September 2018 were HK$109,489,000 (31 March 2018: HK$113,050,000).

As at 30 September 2018, total equity was HK$151,407,000 (31 March 2018: HK$184,210,000). The Group had finance lease payables of HK$257,000 as at 30 September 2018 (31 March 2018: HK$467,000). The gearing ratio as at 30 September 2018, being the ratio of total liabilities to total equity, was 72.5% (31 March 2018: 61.6%).

On 27 January 2017, the Company issued 5.5% convertible bonds which are denominated in Hong Kong dollars with an aggregate principal amount of HK$64,800,000 (the "Convertible Bonds") for cash to independent third parties. The Convertible Bonds will be matured on the second anniversary of the date of issue and the conversion price is HK$0.27 per share subject to anti-dilutive adjustments. Neither the Company nor the holders of the Convertible Bonds may demand early redemption. The Convertible Bonds bear interests at 5.5% per annum on the outstanding principal amount and will be payable semi-annually in arrears until the Convertible Bonds are converted or matured. Unless previously converted or cancelled, upon maturity of the Convertible Bonds, the Company will pay to the holders of the Convertible Bonds an amount equal to the aggregate of 100% of the principal amount of the Convertible Bonds outstanding and interest accrued and outstanding pursuant to the terms and conditions of the Convertible Bonds. No Convertible Bonds had been converted as at the date of this announcement. Details of the Convertible Bonds are set out in the announcements of the Company dated 11 December 2016, 19 January 2017, 27 January 2017 and 6 February 2017.

Employees

As at 30 September 2018, the Group had 232 employees (31 March 2018: 244 employees).

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

Contingent Liabilities

As at 30 September 2018, 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 2018, the Group's assets have not been pledged to secure banking facilities granted to the Group.

Audit Findings

During the performance of the audit work of the Company's consolidated financial statements for the year ended 31 March 2017, Ernst & Young ("EY"), the previous auditors of the Company identified certain inconsistencies between the cash and bank balance and the bank confirmation (the "Inconsistencies") of Yunnan Longrun Tea Technology Company Limited ("YNLRT"), a wholly-owned subsidiary of the Company (the "Audit Findings"). After the management of YNLRT was informed of the Audit Findings, a preliminary internal review (the "Review") was conducted to investigate the relevant matters. Based on the Review, the management of YNLRT noted that the accounting staff of YNLRT had failed to make appropriate entries in the accounts of YNLRT to reflect a short term bridging loan amount advanced earlier than the drawdown date as set out in an agreement (the "Loan Agreement") entered into between YNLRT and an independent third party (the "Independent Third Party") on 1 September 2016, which resulted in the Inconsistencies. The management further noted that the reasons for entering into the Loan Agreement were (i) to facilitate the Independent Third Party to invest in Longrun tea products; and (ii) to make a reasonable interest income for the Group.

Baker Tilly Hong Kong Risk Assurance Limited ("Baker Tilly") was engaged by the Company in June 2017 to perform certain agreed-upon procedures (the "AUP") to specifically address the Audit Findings. The AUP report was issued by Baker Tilly to the Board in November 2017. The Board noted the Group's internal control deficiencies identified by Baker Tilly and certain remedial measures have been adopted and implemented by the Board to address the deficiencies. The audit committee of the Company considered that the remedial measures implemented by the Company are sufficient and adequate to address the deficiencies. Details of which were set out in the Company's announcements dated 22 June 2018 and 24 August 2018.

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 2018, including accounting principles and practices adopted by the Group, and discussed internal controls, risk management and financial reporting matters.

CORPORATE GOVERNANCE

The Company recognises the importance of corporate governance for enhancing the management of the Company as well as preserving the interests of its 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 2018, except for code provision A.4.2 which states that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every 3 years.

Due to the Audit Findings, the publication of annual results and dispatch of annual reports for the years ended 31 March 2017 and 2018, as well as the publication of interim results and dispatch of interim report for the six months ended 30 September 2017, had been deferred. Accordingly, the Company failed to hold its annual general meeting within the times stipulated under the Listing Rules and the Company's articles of association, and that Mr. Jiao Shaoliang and Dr. He William did not retire by rotation at least once every 3 years in accordance with the said code provision A.4.2. At the forthcoming annual general meeting of the Company to be held on 24 December 2018, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang, Dr. He William, Mr. Kwok Hok Lun and Dr. Liu Zhonghua shall retire, and being eligible, will offer themselves for re-election.

CONTINUED SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 15 June 2017 and will remain suspended pending the fulfilment of the resumption conditions imposed by the Stock Exchange.

By Order of the Board
Longrun Tea Group Company Limited
Chiu Ka Leung
Chairman of the Board

Hong Kong, 30 November 2018

As at the date of this announcement, the Board comprises four executive directors, namely, Dr. Chiu Ka Leung, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang and Dr. He William (also known as Lu Pingguo); and four independent non-executive directors, namely, Mr. Lam Siu Hung, Mr. Guo Guoqing, Mr. Kwok Hok Lun and Dr. Liu Zhonghua.