LongRun
龍潤

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 2019

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 2019, together with the comparative figures for the corresponding period in 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2019

		For the six months ended 30 September	
		2019	2018
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*2*	**26,885**	56,644
Cost of sales		**(16,622)**	(40,816)
Gross profit		**10,263**	15,828

	Notes	For the six months ended 30 September 2019 (Unaudited) *HK$'000*	2018 (Unaudited) *HK$'000*
Other income and gains	*3*	**574**	7,017
Provision for expected credit loss allowance on trade receivables		**(9,153)**	(4,303)
Reversal of expected credit loss allowance on trade receivables		**311**	66
Selling and distribution expenses		**(20,239)**	(17,025)
Administrative expenses		**(16,629)**	(14,920)
Finance costs	*4*	**(302)**	(5,655)
Loss before tax	*5*	**(35,175)**	(18,992)
Income tax expense	*6*	**–**	(720)
Loss for the period attributable to owners of the Company		**(35,175)**	(19,712)
Loss per share attributable to owners of the Company	*8*		
– Basic and Diluted		**HK(2.42) cents**	HK(1.36) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss for the period	**(35,175)**	(19,712)
Other comprehensive loss		
Items that may be reclassified subsequently to profit and loss:		
Exchange differences arising on translation of foreign operations	**(5,688)**	(12,251)
Other comprehensive loss for the period, net of income tax	**(5,688)**	(12,251)
Total comprehensive loss for the period attributable to owners of the Company	**(40,863)**	(31,963)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2019

	Notes	**30 September 2019 (Unaudited) *HK$'000***	31 March 2019 (Audited) *HK$'000*
Non-current assets			
Property, plant and equipment	*9*	**3,874**	4,860
Right-of-use assets	*10*	**6,446**	–
Total non-current assets		**10,320**	4,860
Current assets			
Inventories		**6,973**	2,353
Trade receivables	*11*	**34,766**	52,199
Prepayments, deposits and other receivables		**17,446**	10,747
Time deposits with original maturities of more than three months		**18,425**	22,225
Cash and bank balances		**54,900**	88,407
Total current assets		**132,510**	175,931
Current liabilities			
Trade payables	*12*	**764**	1,120
Other payables, accruals and deposits from customers		**33,363**	34,526
Contract liabilities		**1,795**	4,136
Finance lease payables		**121**	118
Lease liabilities		**3,838**	–
Income tax payables		**712**	712
Due to related companies		**186**	188
Due to directors of the Company		**1,938**	1,776
Total current liabilities		**42,717**	42,576

	Notes	30 September 2019 (Unaudited) HK$'000	31 March 2019 (Audited) HK$'000
Net current assets		**89,793**	133,355
Total assets less current liabilities		**100,113**	138,215
Non-current liabilities			
Finance lease payables		**21**	82
Lease liabilities		**2,801**	–
Contract liabilities		**70**	49
Total non-current liabilities		**2,892**	131
Net assets		**97,221**	138,084
Equity			
Equity attributable to owners of the Company			
Share capital	*13*	**72,576**	72,576
Reserves		**24,645**	65,508
Total equity		**97,221**	138,084

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2019

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

The condensed consolidated financial statements of the Company have 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 "HKICPA") and the applicable disclosure provisions to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The condensed consolidated interim financial information for the six months ended 30 September 2019 of the Group has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Listing Rules, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the 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 2019 annual financial statements. The condensed consolidated 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 2019 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 2019 are available from the Company's principal place of business in Hong Kong. The auditor has issued a qualified opinion on those financial statements in its report dated 26 June 2019.

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 2019. 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 2019, 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 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK (IFRIC) – Interpretation 23	Uncertainty over Income Tax Treatments
HKFRS 9 Amendments	Prepayment Features with Negative Compensation
HKAS 19 Amendments	Plan Amendment, Curtailment or Settlement
HKAS 28 Amendments	Long-term interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

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.

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments.

The Group has applied HKFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for the year ended 31 March 2019 has not been restated – i.e. it is presented, as previously reported, under HKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

(i) New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 April 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components as a single lease component.

(ii) As a lessee

The Group has lease contracts for various items of land, property and office equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for the exemption of the short-term lease. The Group has elected not to recognise right-of-use assets and lease liabilities for the lease, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with the lease of as an expense on a straight-line basis over the lease term.

(a) Significant accounting policies

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

(b) Impacts on transition

Lease liabilities at 1 April 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the condensed consolidated statement of financial position immediately before 1 April 2019. All these assets were assessed for any impairment based on HKAS 36 on that date.

The Group applied the following practical expedients on transition to HKFRS 16 for those leases which were previously classified as operating leases under HKAS 17.

– Applied the recognition exemption for leases for which the lease term ends within 12 months of the date of initial application.

– Excluded the initial direct costs from the measurement of the right-of-use assets.

– Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

(iii) Impacts on condensed consolidated financial statements

The table below explains the difference between operating lease commitments disclosed at 31 March 2019 by applying HKAS 17 and lease liabilities recognised at 1 April 2019 by applying HKFRS 16:

	HK$'000 **(unaudited)**
Operating lease commitments disclosed as 31 March 2019	**5,633**
Less: Leases end within 12 months from the date of initial application	**(2,253)**
Add: Termination option reasonably certain not to be exercised by the Group	**6,464**
Operating lease liabilities before discounting at 31 March 2019	**9,844**
Effect from discounting at incremental borrowing rate at 1 April 2019*	**(901)**
Lease liabilities recognised as at 1 April 2019	**8,943**
Of which are:	
Current lease liabilities	**4,387**
Non-current lease liabilities	**4,556**
	8,943

* *The weighted average incremental borrowing rate was 9.95%.*

Under the transition methods chosen, the Group has adopted the modified retrospective approach to recognise cumulative effect of the initial application of HKFRS 16 as an adjustment to the opening balance at 1 April 2019. Comparative information is not restated. Line items that were not affected by the changes have not been included in the following table. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The following table gives a summary of the opening balance adjustments recognised for the line items in the condensed consolidated statement of financial position that have been impacted by HKFRS 16:

	At 31 March 2019, in accordance with HKAS 17	Impact of initial application of HKFRS 16	At 1 April 2019, in accordance with HKFRS 16
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(unaudited)	(unaudited)
Non-current assets			
Right-of-use assets	–	8,943	8,943
Current liabilities			
Lease liabilities	–	(4,387)	(4,387)
Non-current liabilities			
Lease liabilities	–	(4,556)	(4,556)

During the six months ended 30 September 2019, the Group recognised the depreciation charges of approximately HK$2,238,000 *(note 5)* and interest costs of approximately HK$298,000 *(note 4)* in relation to those leases under HKFRS 16.

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 of the Company 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, gain on disposal of financial assets at fair value through profit or loss, finance costs, 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**	
	2019	2018	**2019**	2018	**2019**	2018
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**1,333**	2,614	**25,552**	54,030	**26,885**	56,644
Other income	**–**	–	**266**	684	**266**	684
Total	**1,333**	2,614	**25,818**	54,714	**27,151**	57,328
Segment results	**(3,923)**	(3,649)	**(23,652)**	(10,130)	**(27,575)**	(13,779)
Reconciliation:						
Bank interest income					**308**	912
Gain on disposal of items of property, plant and equipment, net					**–**	30
Gain on disposal of financial assets at fair value through profit or loss					**–**	5,391
Corporate and other unallocated expenses					**(7,606)**	(5,891)
Finance costs					**(302)**	(5,655)
Loss before tax					**(35,175)**	(18,992)

(b) Geographical information

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue from contract with customers within the scope of HKFRS 15		
Sale of goods, recognised at point in time: –		
The People's Republic of China (the "PRC"), excluding Hong Kong	**23,990**	49,839
Hong Kong	**1,333**	2,614
Elsewhere in Asia	**1,562**	3,996
United States of America	**–**	195
	26,885	56,644

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

3. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Other income within the scope of HKFRS 15		
Franchise income, recognised over time	**200**	632
Other income and gains from other sources		
Bank interest income	**308**	912
Gain on disposal of items of property, plant and equipment, net	**–**	30
Gain on disposal of financial assets at fair value through profit or loss	**–**	5,391
Others	**66**	52
	374	6,385
Total other income and gains	**574**	7,017

4. FINANCE COSTS

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on finance leases	**4**	8
Interest on lease liabilities	**298**	–
Effective interest expense on convertible bonds	**–**	5,647
	302	5,655

5. LOSS BEFORE TAX

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

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories recognised as an expense	**16,168**	40,009
Depreciation on property, plant and equipment	**934**	909
Depreciation on right-of-use assets	**2,238**	–
Provision for slow-moving and obsolete inventories	**–**	25
Net expected credit losses of trade receivables	**8,842**	4,237

6. INCOME TAX EXPENSE

During the six months ended 30 September 2019, no provision for Hong Kong profits tax has been made as the Company and its subsidiaries do not generate any assessable profits arising in Hong Kong during the current period. During the six months ended 30 September 2018, 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. Under the Law of the PRC 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	
	2019	2018
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong Profits Tax		
– Charge for the period	**–**	720

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

7. INTERIM DIVIDEND

The directors did not recommend the payment of any interim dividend for the six months ended 30 September 2019 (2018: 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 2019 attributable to owners of the Company of approximately HK$35,175,000 (2018: HK$19,712,000) and the weighted average number of ordinary shares of approximately 1,451,520,000 (2018: 1,451,520,000) in issue during the period.

For the six months ended 30 September 2019, the computation of diluted loss per share does not assume the Company's exercise of outstanding share options since their assumed exercises would result in a decrease in loss per share.

For the six months ended 30 September 2018, 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 exercises would result in a decrease in loss per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2019, the Group acquired property, plant and equipment of approximately HK$175,000 (six months ended 30 September 2018: HK$3,259,000).

10. RIGHT-OF-USE ASSETS

The Group has entered into new lease agreements during the reporting period. Right-of-use assets amounted to HK$6,446,000 has been recognised for the reporting period accordingly.

11. TRADE RECEIVABLES

	30 September 2019 (Unaudited) ***HK$'000***	31 March 2019 (Audited) *HK$'000*
Trade receivables	**67,520**	77,420
Less: Expected credit loss allowances	**(32,754)**	(25,221)
	34,766	52,199

The Group's trading terms with its customers are mainly on credit, except for new customers of which payment in advance is normally required. The credit period generally ranges from 30 to 360 days (31 March 2019: 30 to 360 days). Longer credit periods are provided to certain customers because the Group encouraged these customers for their start-up businesses. Due to the continuous slowdown in traditional retail sales of the consumer goods in the PRC resulted from gradually deceleration of the economic development in the PRC in recent years, the discouragement of excessive hospitality such as gifting by the PRC government and the consolidation and enhanced regulation of the PRC direct selling industry, operating performances of certain customers were adversely affected and these customers are in financial difficulties so that proportion of long aged trade receivables increased during the year. Accordingly, the Group seeks to maintain control over its past due receivables. Regarding those major customers, the Group uses an internal credit rating system to assess those customers' credit qualities, defines credit limits by customer and performs follow up procedures on settlements of outstanding receivables. Overdue balances are reviewed regularly by the directors of the Company and expected credit loss of trade receivables are provided to trade receivables. Trade receivables are non-interest-bearing.

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

	30 September 2019 (Unaudited) ***HK$'000***	31 March 2019 (Audited) *HK$'000*
Within 1 month	**10,268**	8,962
2 to 3 months	**431**	15,755
4 to 12 months	**21,981**	20,984
Over 12 months	**2,086**	6,498
	34,766	52,199

An aged analysis of the trade receivables, net of expected credit loss allowance as at the end of the reporting period, based on the payment due date, that are not individually nor collectively considered to be impaired is as follows:

	30 September 2019 (Unaudited) *HK$'000*	31 March 2019 (Audited) *HK$'000*
Current (neither past due nor impaired)	**9,292**	23,788
Within 1 to 3 months overdue	**3,384**	5,680
Within 4 to 12 months overdue	**17,739**	19,526
Over 12 months overdue	**4,351**	3,205
	34,766	52,199

The movements in the provision for expected credit loss allowances of trade receivables are as follows:

	30 September 2019 (Unaudited) *HK$'000*	31 March 2019 (Audited) *HK$'000*
At the beginning of the period/year	**25,221**	23,924
Provision for expected credit loss allowance	**9,153**	4,910
Reversal of expected credit loss allowance	**(311)**	(2,115)
Exchange realignment	**(1,309)**	(1,498)
At the end of period/year	**32,754**	25,221

The Group's trade receivables of approximately HK$32,754,000 (31 March 2019: HK$25,221,000) include 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% (31 March 2019: 85.5%) and 14.5% (31 March 2019: 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.

The balances due from Ideality Group of approximately HK$167,000 (31 March 2019: HK$1,597,000) are repayable on similar credit terms to those offered to the major customers of the Group and include the balances of approximately HK$Nil (31 March 2019: HK$1,473,000) which are past due at the end of the reporting period.

Based on past experience, the directors of the Company determine that no provision (31 March 2019: Nil) for impairment is necessary in respect of these balances as there are no significant change in credit quality of the balances and these balances as at 30 September 2019.

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

12. 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 2019 (Unaudited) *HK$'000*	31 March 2019 (Audited) *HK$'000*
Current and not yet due	**7**	31
Within 1 to 3 months overdue	**257**	585
Within 4 to 12 months overdue	**21**	21
Over 12 months overdue	**479**	483
	764	1,120

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

	30 September 2019 (Unaudited) *HK$'000*	31 March 2019 (Audited) *HK$'000*
Yunnan Longrun Tea Group Company Limited@ ("LRTG") 雲南龍潤茶業集團有限公司	**71**	174
Fengqing Longrun Tea Company Limited@ ("FLRT") 鳳慶龍潤茶業有限公司	**29**	130
Changning Longrun Tea Company Limited@ ("CLRT") 昌寧縣龍潤茶業有限公司	**7**	12
Yunnan Longfar Pharmaceutical Company Limited@ ("YNLF") 雲南龍發製藥股份有限公司	**32**	302
	139	618

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 Comapny, 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.

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

13. SHARE CAPITAL

	30 September 2019 (Unaudited)	31 March 2019 (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 2019 (audited) and 30 September 2019 (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.

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 of the Company 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.

The following share options were outstanding under the Scheme during the period/year:

	Weighted average exercise price HK$ per share	Number of options
At 1 April 2017, 31 March 2018, 31 March 2019 and 30 September 2019 (unaudited)	0.3	51,400,000

No share options were granted, exercised or lapsed under the Scheme during the six months ended 30 September 2019 (2018: Nil).

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 2019, revenue of the Group decreased by approximately 52.5% to approximately HK$26,885,000 (six months ended 30 September 2018: HK$56,644,000). The decrease was mainly due to the decrease in revenue in particular relating to the direct selling platform. Gross profit of the Group decreased by approximately 35.2% to approximately HK$10,263,000 for the six months ended 30 September 2019 (six months ended 30 September 2018: HK$15,828,000). The decrease in gross profit is mainly attributable to the decrease in revenue. Such decrease in revenue was mainly brought by the slowing down of the growth of the PRC economy and the general deteriorating operating environment in the PRC resulted from the Sino-US trade tension. In addition, the modification of rules and regulations by the local government on tourism related selling activities and direct selling industry still posed negative effect. Profit margin for the six months ended 30 September 2019 improved to 38.2% from 27.9% for the last corresponding period. Such improvement was mainly due to the Group's proportion of sales generated from products with lower profit margin decreased.

Other income and gains of the Group for the six months ended 30 September 2019 was approximately HK$574,000 (six months ended 30 September 2018: HK$7,017,000). Such decrease was mainly due to the absence of a one-off gain on disposal of financial assets.

Selling and distribution expenses of the Group for the six months ended 30 September 2019 was approximately HK$20,239,000 (six months ended 30 September 2018: HK$17,025,000). The increase in selling and distribution expenses was mainly derived from the increase in marketing and promotion expenses.

Administrative expenses of the Group increased by approximately 11.5% from approximately HK$14,920,000 for the six months ended 30 September 2018 to approximately HK$16,629,000 for the six months ended 30 September 2019. The increase in administrative expenses was mainly attributable to the increase in professional fees.

Provision for expected credit loss allowance on trade receivables for the six months ended 30 September 2019 increased to HK$9,153,000 from HK$4,303,000 for the corresponding period last year. Such increase was mainly due to the increase in allowance made to customers resulting from the slowing down of the growth of the PRC economy.

Finance costs decreased to approximately HK$302,000 for the six months ended 30 September 2019 from approximately HK$5,655,000 for the corresponding period last year. Such decrease was mainly due to the decrease in effective interest expenses after redemption of all the Company's convertible bonds issued on 27 January 2017 had been made in January 2019.

Loss for the period attributable to owners of the Company for the six months ended 30 September 2019 amounted to approximately HK$35,175,000 (six months ended 30 September 2018: loss of HK$19,712,000). The increase of loss for the period under review as compared to the corresponding period last year was mainly due to the decrease in revenue and gross profit.

Basic loss per share was HK2.42 cents for the six months ended 30 September 2019 against basic loss per share of HK1.36 cents for the six months ended 30 September 2018.

BUSINESS REVIEW

Tea and Other Food Products Businesses

During the period under review, the Group focused on distributing tea products under the well-established "Longrun（龍潤）" brand in the PRC market mainly through its distribution network of franchised and self-owned tea shops. Despite the poor spending sentiment had continued to affect the consumer market in the PRC generally, the Group continued to diversify its customer base by providing tailor made non-"Longrun（龍潤）" branded tea products to corporate customers in the PRC. Revenue for the period under review from tea and other food products businesses was approximately HK$25,552,000 (six months ended 30 September 2018: HK$54,030,000), accounting for approximately 95.0% (six months ended 30 September 2018: 95.4%) of the Group's total revenue.

For the period under review, the Group has successfully engaged different independent suppliers of tea products and substantially reduced the Group's reliance on the connected supplier. The Group will continue to explore opportunities to set up its own tea manufacturing base in Yunnan Province and to engage different independent suppliers with a view to further diversify its procurement sources and reduce its potential business risk.

Tea Shops

The Group's traditional tea products bearing "Longrun（龍潤）" brand, including tea cakes, tea bricks, loose tea leaves, tea gift sets, instance tea essence and tea bags, etc., are sold in the Group's traditional tea shops network comprising both franchised and self-owned tea shops. As at 30 September 2019, the Group managed a network comprising a total of over 550 tea shops 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

Currently, there are two mega retail outlets in Yunnan Province whereby the Group's tourism associated customers will promote and distribute "Longrun (龍潤)" tea products to both domestic and international tourists travelling to Yunnan Province. The two mega retail outlets have a gross total area of over 5,500 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

Direct Selling

The Group distributed its tea products to direct selling enterprises in the PRC since 2014. Tea products sold to direct selling enterprises are mainly tailor made non-"Longrun (龍潤)" products. For the period under review, the consolidation and enhanced regulation of the PRC direct selling activities are still affecting the direct selling industry. However, the effect of industry consolidation and enhanced regulation is expected to bring positive effect to the development of the direct selling industry in the longer term. Against such background, the Group will continue to develop tailor made tea products using customer's packaging design and brand name for their onward distribution in direct selling platforms.

Healthcare and Pharmaceutical Business

For the six months ended 30 September 2019, revenue from healthcare and pharmaceutical business was approximately HK$1,333,000 (for the six months ended 30 September 2018: HK$2,614,000), accounting for approximately 5.0% (for the six months ended 30 September 2018: 4.6%) of the Group's total revenue. For the period under review, the decrease in revenue from the healthcare and pharmaceutical business was mainly due to the fact that the retail sector in Hong Kong was deeply affected by the ongoing demonstration and social unrest as well as the intense competition in the health supplement market. In this regard, the Company is formulating a campaign to (i) educate the general public about the benefits of detoxification; (ii) expand the existing sales channels; and (iii) explore opportunities to sell the Group's products through various social media platforms and online stores.

PROSPECTS

The Group's operating environment remains very challenging. Trade relation between China and the United States are tense, bringing pressure in the PRC economy. Traditional retail sales of consumer goods in the PRC has been affected and 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 tea market in China has been stabilising and the encouragement of domestic consumption by the PRC Government shall present opportunities for the Group. The Group will continue to focus on brand building and new product development. In particular, the Group has launched a new marketing and advertising campaign for launching a new line of Pu-erh tea products right after the closing of second quarter of the 2019 financial year. The Group engaged a famous PRC actor as the "product endorser" and launched TV commercials on CCTV and other social media in the PRC. Furthermore, the Group will continue to expand its franchise network of tea shops and to explore other new distribution channels with a view to broaden its customer base.

Liquidity and Financial Resources

The Group has consistently maintained sufficient working capital. As at 30 September 2019, the Group had current assets of HK$132,510,000 (31 March 2019: HK$175,931,000) and cash and bank balances and time deposits with original maturities of more than three months of HK$73,325,000 (31 March 2019: HK$110,632,000). The Group's current liabilities as at 30 September 2019 were HK$42,717,000 (31 March 2019: HK$42,576,000).

As at 30 September 2019, total equity was HK$97,221,000 (31 March 2019: HK$138,084,000). The Group had finance lease payables of HK$142,000 as at 30 September 2019 (31 March 2019: HK$200,000). The gearing ratio as at 30 September 2019, being the ratio of total liabilities to total equity, was 46.9% (31 March 2019: 30.9%).

Employees

As at 30 September 2019, the Group had 246 employees (31 March 2019: 231 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 a share option scheme and offers discretionary bonus to its employees.

Contingent Liabilities

As at 30 September 2019, 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 2019, no Group's assets have been pledged.

REVIEW OF FINANCIAL INFORMATION

The interim financial report for the six months ended 30 September 2019 has been reviewed by Moore Stephens CPA Limited, the Company's independent auditor, whose review report will be included in the interim report to be sent to the shareholders of the Company.

The audit committee of the Company, comprising the Company's three independent non-executive directors (being Mr. Lam Siu Hung, Mr. Guo Guoqing and Mr. Kwok Hok Lun), has reviewed with the management of the Company the accounting principles and practices adopted by the Company and discussed the auditing, risk management and internal control systems and financial reporting matters including the review of the unaudited financial information of the Group and the interim report for the six months ended 30 September 2019.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE

The Company recognises the importance of 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 2019.

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. For further details, please refer to the Company's announcement dated 7 November 2019.

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

Hong Kong, 29 November 2019

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; and four independent non-executive directors, namely, Mr. Lam Siu Hung, Mr. Guo Guoqing, Mr. Kwok Hok Lun and Dr. Liu Zhonghua.