



LongRun

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LONGRUN TEA GROUP COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 2898



Interim Report **2019**

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Mr. Jiao Shaoliang
Dr. He William (also known as
Lu Pingguo)

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

INTERNAL CONTROL COMMITTEE

Mr. Lam Siu Hung *Chairman*
Dr. Chiu Ka Leung
Dr. He William
Mr. Kwok Hok Lun

COMPANY SECRETARY

Mr. Hui Pang To *FCCA, CPA*

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

AUDITOR

Moore Stephens CPA Limited
Certified Public Accountants
801-806 Silvercord,
Tower 1, 30 Canton Road,
Tsimshatsui, Kowloon, Hong Kong

LEGAL ADVISERS

As to Hong Kong law:

Stevenson, Wong & Co.
39/F, Gloucester Tower, The Landmark,
15 Queen's Road Central, Hong Kong.

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

INTERNAL CONTROL ADVISOR

BT Corporate Governance Limited
(formerly known as "Corporate
Governance Professionals Limited")
2nd Floor, 625 King's Road,
North Point, Hong Kong.

PRINCIPAL BANKERS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Services (Cayman Islands) Limited
P.O. Box 10008, Willow House,
Cricket Square,
Grand Cayman KY1-1001,
Cayman Islands.

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 54, Hopewell Centre,
183 Queen's Road East, Hong Kong.

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REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of Longrun Tea Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 5 to 34 which comprise the condensed consolidated statement of financial position as of 30 September 2019 and the related condensed consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Moore Stephens CPA Limited

Certified Public Accountants

Hung, Wan Fong Joanne

Practising Certificate Number: P05419

Hong Kong, 29 November 2019



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2019

		For the six months ended 30 September	
		2019	2018
	Notes	(Unaudited) HK\$'000	(Unaudited) HK\$'000
REVENUE	3	26,885	56,644
Cost of sales		(16,622)	(40,816)
Gross profit		10,263	15,828
Other income and gains	4	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	5	(302)	(5,655)
LOSS BEFORE TAX	6	(35,175)	(18,992)
Income tax expense	7	–	(720)
LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		(35,175)	(19,712)
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY – Basic and Diluted	9	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		
<i>Items that may be reclassified subsequently to profit and loss:</i>		
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

		30 September 2019 (Unaudited) <i>HK\$'000</i>	31 March 2019 (Audited) <i>HK\$'000</i>
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	10	3,874	4,860
Right-of-use assets	11	6,446	–
Total non-current assets		10,320	4,860
CURRENT ASSETS			
Inventories		6,973	2,353
Trade receivables	12	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	13	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	18(b)(i)	186	188
Due to directors of the Company	18(b)(ii)	1,938	1,776
Total current liabilities		42,717	42,576

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 September 2019

	Note	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	14	72,576	72,576
Reserves		24,645	65,508
TOTAL EQUITY		97,221	138,084



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2019

	Issued share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Employee share-based compensation reserve HK\$'000	Convertible bonds equity reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total equity HK\$'000
At 1 April 2019 (audited)	72,576	253,001*	300*	6,129*	-*	5,226*	(199,148)*	138,084
Loss for the period	-	-	-	-	-	-	(35,175)	(35,175)
Other comprehensive loss for the period:								
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(5,688)	-	(5,688)
Total comprehensive loss for the period	-	-	-	-	-	(5,688)	(35,175)	(40,863)
At 30 September 2019 (unaudited)	72,576	253,001*	300*	6,129*	-	(462)*	(234,323)*	97,221
At 1 April 2018 (audited)	72,576	253,001	300	6,129	12,549	13,635	(173,980)	184,210
Transitional adjustments on initial application of Hong Kong Financial Reporting Standard ("HKFRS") 9	-	-	-	-	-	(43)	(797)	(840)
At 1 April 2018 (adjusted)	72,576	253,001	300	6,129	12,549	13,592	(174,777)	183,370
Loss for the period	-	-	-	-	-	-	(19,712)	(19,712)
Other comprehensive loss for the period:								
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(12,251)	-	(12,251)
Total comprehensive loss for the period	-	-	-	-	-	(12,251)	(19,712)	(31,963)
At 30 September 2018 (unaudited)	72,576	253,001	300	6,129	12,549	1,341	(194,489)	151,407

* These reserve accounts comprise the consolidated reserves of approximately HK\$24,645,000 (unaudited) (31 March 2019: HK\$65,508,000) in the condensed consolidated statement of financial position.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2019

	Notes	For the six months ended 30 September	
		2019 (Unaudited) <i>HK\$'000</i>	2018 (Unaudited) <i>HK\$'000</i>
OPERATING ACTIVITIES			
Cash used in operations		(35,854)	(29,924)
Income tax paid		-	-
Net cash flows used in operating activities		(35,854)	(29,924)
INVESTING ACTIVITIES			
Bank interest received	4	308	912
Purchases of items of property, plant and equipment		(175)	(3,259)
Proceeds from disposal of items of property, plant and equipment		-	30
Proceeds from disposal of financial assets at fair value through profit or loss		-	12,891
Withdrawal in short term time deposits with original maturities of more than three months		3,800	96,313
Net cash flows generated from investing activities		3,933	106,887



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

For the six months ended 30 September 2019

	For the six months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
FINANCING ACTIVITIES		
Repayments of finance lease payables	(58)	(210)
Payment of interests on convertible bonds	–	(1,782)
Payment of interests on finance leases	(4)	(8)
Payment of interest on lease liabilities	(298)	–
Payment of principal portion of lease liabilities	(2,045)	–
Advances from/(repayments to) directors of the Company	162	(2,023)
Net cash flows used in financing activities	(2,243)	(4,023)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		
	(34,164)	72,940
Cash and cash equivalents at beginning of period	88,407	153,336
Effect of foreign exchange rate changes, net	657	(11,990)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	54,900	214,286
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	54,900	133,314
Time deposits with original maturities of less than three months	–	80,972
CASH AND CASH EQUIVALENTS AS STATED IN THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS	54,900	214,286

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2019

1. GENERAL INFORMATION

Longrun Tea Group Company Limited (the “Company”) is a public limited liability company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office and the principal place of business of the Company are located at P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands and Room 3007A-B, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong respectively.

During the period, the Company and its subsidiaries (collectively referred as the “Group”) were involved in the trading and distribution of pharmaceutical products, tea products and other food products.

2. 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.



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

(Continued)

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.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (Continued)

HKFRS 16 Leases (Continued)

(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.



2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (Continued)

HKFRS 16 Leases (Continued)

(ii) As a lessee (Continued)

(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.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (Continued)

HKFRS 16 Leases (Continued)

(ii) As a lessee (Continued)

(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.



2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE
(Continued)

HKFRS 16 Leases (Continued)

(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 at 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%.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE
(Continued)

HKFRS 16 Leases (Continued)

(iii) Impacts on condensed consolidated financial statements (Continued)

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 <i>HK\$'000</i> (audited)	Impact of initial application of HKFRS 16 <i>HK\$'000</i> (unaudited)	At 1 April 2019, in accordance with HKFRS 16 <i>HK\$'000</i> (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 6) and interest costs of approximately HK\$298,000 (note 5) in relation to those leases under HKFRS 16.



3. 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 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) 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)

3. REVENUE AND SEGMENT INFORMATION (Continued)

(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.



4. 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

5. 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

6. 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

7. 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.



8. INTERIM DIVIDEND

The directors of the Company did not recommend the payment of any interim dividend for the six months ended 30 September 2019 (2018: Nil).

9. 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.

10. 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).

11. RIGHT-OF-USE ASSETS

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

12. 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

12. TRADE RECEIVABLES (Continued)

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



12. TRADE RECEIVABLES (Continued)

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)⁹ ("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.

12. TRADE RECEIVABLES (Continued)

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 expected credit loss allowance is necessary in respect of these balances as there are no significant change in credit quality of the balances.

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

13. 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



13. TRADE PAYABLES (Continued)

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

Details of relationships with the Group regarding the aforesaid related parties are disclosed in note 18(a)(ii)-(v). 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 the names is for identification purpose only.

14. SHARE CAPITAL

	30 September 2019 (Unaudited) HK\$'000	31 March 2019 (Audited) HK\$'000
<i>Authorised:</i> 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
<i>Issued and fully paid:</i> At 31 March 2019 (audited) and 30 September 2019 (unaudited)	1,451,520,000	72,576

15. 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 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.



15. EQUITY COMPENSATION PLANS (Continued)

Share Option Scheme (Continued)

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 <i>HK\$ Per share</i>	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.

16. COMMITMENTS

Operating lease commitment – the Group as lessee

Operating lease payments represent rentals payable by the Group for certain of its premises. The operating lease commitment as at 30 September 2019 presented below represents the future aggregate minimum lease payments for the leases with lease terms less than one year. Leases with lease term over one year have been recorded as lease liabilities as at 30 September 2019 under newly adopted accounting standard HKFRS 16 (note 2). The operating lease commitment as at 31 March 2019 presented below represents the future aggregate minimum lease payments under all non-cancellable operating leases.

	30 September 2019 (Unaudited) HK\$'000	31 March 2019 (Audited) HK\$'000
Within one year	953	3,924
In the second to fifth years, inclusive	–	1,709
	953	5,633

17. CONTINGENT LIABILITIES

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



18. RELATED PARTY TRANSACTIONS AND BALANCES

- (a) In addition to those transactions disclosed elsewhere in the condensed consolidated interim financial information, the Group had the following material transactions with related parties during the period:

	Notes	For the six months ended 30 September	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Sales of tea products to:			
Ideality Group [^]	(i), (vi)	201	–
Purchases of tea products from:			
CLRT [^]	(iii), (vi)	1,468	4,434
FLRT [^]	(iii), (vi)	2,301	7,910
LRTG [^]	(v), (vi)	2,974	29,659
		6,744	42,003
Purchases of pharmaceutical products from:			
YNLF	(ii), (vi)	32	675
Rental expense incurred to:			
雲南龍潤茶業發展有限公司 Yunnan Longrun Tea Development Company Limited [^] (“YLRT”)	(iv), (vi)	–	207

- [^] The above transactions in respect of the sales of tea products and the purchases of tea products entered into by the Group during the six months ended 30 September 2019 also constituted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

18. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(a) *(Continued)*

Notes:

- (i) Ideality Group is beneficially owned as to 85.5% and 14.5% 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.
- (ii) 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.
- (iii) The companies are wholly-owned subsidiaries of LRTG.
- (iv) YLRT is beneficially owned as to 77% and 23% 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.
- (v) 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.
- (vi) The transactions were conducted at rates mutually agreed between the relevant parties.



18. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Outstanding balances with related parties

In addition to those balances disclosed elsewhere in the condensed consolidated interim financial information, the Group had the following balances with related parties at the end of the reporting period:

- (i) The amounts due to related companies, 雲南龍潤藥業有限公司 (Yunnan Long Run Pharmaceuticals Company Limited)* (“YLRP”) and YLRT, are unsecured, interest-free and have no fixed terms of repayment. YLRP is jointly owned by 龍潤藥業集團有限公司 (Long Run Pharmaceuticals Group Limited)* (“LRGL”) and 雲南龍潤投資有限公司 (Yunnan Longrun Investment Company Limited)* (“YLI”). LRGL and YLI are beneficially owned as to 90% 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.
- (ii) The amounts due to directors of the Company are unsecured, interest-free and without fixed terms of repayment.

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

(c) Compensation of key management personnel (including directors of the Company) of the Group

	For the six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employee benefits	5,370	5,069
Post-retirement benefits	54	54
Total compensation paid to key management personnel	5,424	5,123

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The directors of the Company have assessed that the fair values of financial assets and other financial liabilities including cash and bank balances, time deposits with original maturities of more than three months, trade receivables, trade payables, deposits and other receivables, other payables and accruals, amounts due to related companies, amounts due to directors of the Company and finance lease payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

20. APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The condensed consolidated interim financial information was approved and authorised for issue by the board of directors on 29 November 2019.



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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL RESULTS *(Continued)*

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.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

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.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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.

SUPPLEMENTARY INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2019, the interests of the directors (the "Directors") and the chief executive of the Company and their respective associates in the shares, debentures and underlying shares of the Company and its associated corporations which were required, pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

(A) Long position in ordinary shares of the Company

Name of Director	Capacity	Number of ordinary shares	Percentage* of the Company's issued share capital
Dr. Chiu Ka Leung	Beneficial owner	805,804,500	55.51%
Ms. Yeh Shu Ping	Beneficial owner	35,545,500	2.45%
Mr. Jiao Shaoliang	Beneficial owner	1,100,000	0.08%
Dr. He William	Beneficial owner	16,880,000	1.16%



SUPPLEMENTARY INFORMATION *(Continued)*

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

(B) Long position in underlying shares of the Company – physically settled unlisted equity derivatives

Name of Director	Capacity	Number of underlying shares	Percentage* of underlying shares over the Company's issued share capital
Dr. Chiu Ka Leung	Beneficial owner	1,400,000	0.10%
Ms. Yeh Shu Ping	Beneficial owner	10,000,000	0.69%
Mr. Jiao Shaoliang	Beneficial owner	10,000,000	0.69%
Dr. He William	Beneficial owner	10,000,000	0.69%
Mr. Lam Siu Hung	Beneficial owner	1,000,000	0.07%
Mr. Guo Guoqing	Beneficial owner	1,000,000	0.07%
Mr. Kwok Hok Lun	Beneficial owner	1,000,000	0.07%
Dr. Liu Zhonghua	Beneficial owner	1,000,000	0.07%

Note: Details of the above share options granted by the Company are set out in the section headed "SHARE OPTIONS" in this interim report.

* The percentage represents the number of ordinary shares/underlying shares involved divided by the number of the Company's issued shares as at 30 September 2019.

In addition to the above, as at 30 September 2019, Dr. Chiu Ka Leung holds one ordinary share in each of Long Far Herbal Medicine Manufacturing (Hong Kong) Limited and Long Far Health Products Limited (in both cases in trust for Long Far Pharmaceutical (BVI) Limited and both of which are indirect wholly-owned subsidiaries of the Company) in a non-beneficial capacity, solely for the purpose of complying with the then minimum company membership requirement.

SUPPLEMENTARY INFORMATION *(Continued)*

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

Save as disclosed above and in the section headed "SHARES OPTIONS" below, as at 30 September 2019, none of the Directors or chief executive of the Company or any of their associates had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 30 September 2019, the following persons/corporations (other than the Directors or chief executive of the Company) who had interests or short position of 5% or more of the issued shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO or as the Company is aware:

(A) Long position in ordinary shares of the Company

Name	Capacity	Number of ordinary shares	Percentage* of the Company's issued share capital
Guo Jinxiu	Interest held by spouse (Note 1)	805,804,500	55.51%
Chen Fang	Beneficial owner	110,000,000	7.58%
徐永鋒	Beneficial owner	100,000,000	6.89%
Law Fei Shing	Interest of controlled corporations (Note 2)	764,215,000	52.65%
True Promise Investments Limited	Interest of controlled corporation (Note 2)	764,215,000	52.65%
Excel Precise International Limited	Person having a security interest in shares (Note 2)	764,215,000	52.65%

SUPPLEMENTARY INFORMATION *(Continued)*

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

(B) Long position in underlying shares of the Company – physically settled unlisted equity derivatives

Name	Capacity	Number of underlying shares	Percentage ⁺ of underlying shares over the Company's issued share capital
Guo Jinxiu	Interest held by spouse (Note 1)	1,400,000	0.10%

Notes:

1. Ms. Guo Jinxiu, being the spouse of Dr. Chiu Ka Leung, was deemed to have such interest held by Dr. Chiu Ka Leung. Such interest of Dr. Chiu Ka Leung has been disclosed in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES" above.
2. Excel Precise International Limited was a company owned as to 25% by Mr. Law Fei Shing and 73.5% by True Promise Investments Limited. True Promise Investments Limited in turn was wholly-owned by Mr. Law Fei Shing. Accordingly, Mr. Law Fei Shing and True Promise Investments Limited were deemed to be interested in these shares which Excel Precise International Limited was deemed to have a security interest.

⁺ *The percentage represents the number of ordinary shares/underlying shares involved divided by the number of the Company's issued shares as at 30 September 2019.*

Save as disclosed above, as at 30 September 2019, no person, other than the Directors or chief executive of the Company whose interests are set out in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES" above, had registered an interest or a short position in the shares, underlying shares or debentures of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

SUPPLEMENTARY INFORMATION *(Continued)*

SHARE OPTIONS

As set out in note 15 to the interim financial information, the Company currently operates a share option scheme adopted on 17 August 2012 (the "Scheme") (which is made pursuant to Chapter 17 of the Listing Rules) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Details of the movements of the Company's share options granted under the Scheme during the six months ended 30 September 2019 are as follows:

Name or category of option holder	Outstanding as at 1 April 2019	Number of share options			Outstanding as at 30 September 2019	Date of grant of share options	Exercise period of share options	Exercise price per share (Note)
		Granted during the period	Exercised during the period	Lapsed/Cancelled during the period				
Directors								
<i>Executive directors</i>								
Dr. Chiu Ka Leung	1,400,000	-	-	-	1,400,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
Ms. Yeh Shu Ping	10,000,000	-	-	-	10,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
Mr. Jiao Shaoliang	10,000,000	-	-	-	10,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
Dr. He William	10,000,000	-	-	-	10,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
<i>Independent non-executive directors</i>								
Mr. Lam Siu Hung	1,000,000	-	-	-	1,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
Mr. Guo Guoqing	1,000,000	-	-	-	1,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
Mr. Kwok Hok Lun	1,000,000	-	-	-	1,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
Dr. Liu Zhonghua	1,000,000	-	-	-	1,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
<i>Subtotal for Directors:</i>	35,400,000	-	-	-	35,400,000			
<i>Employees of the Group</i>								
In aggregate	16,000,000	-	-	-	16,000,000	25 November 2016	25 November 2016 to 24 November 2021	HK\$0.30
<i>Subtotal for employees:</i>	16,000,000	-	-	-	16,000,000			
TOTAL:	51,400,000	-	-	-	51,400,000			

Note: The number and/or exercise price of the share options may be subject to adjustment in the case of rights or bonus issues, or other changes in the Company's share capital.

SUPPLEMENTARY INFORMATION *(Continued)*

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

AUDIT COMMITTEE

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.

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.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

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

SUPPLEMENTARY INFORMATION *(Continued)*

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

The Company has established written guidelines for the relevant employees of the Company (the “Relevant Employees”) in respect of their dealings in the securities of the Company (the “Written Guidelines”) on terms no less exacting than the required standard set out in the Model Code. For this purpose, “Relevant Employee” includes any employee of the Company or a director or employee of a subsidiary or holding company of the Company who, because of such office or employment, is likely to possess inside information in relation to the Company or its securities. No incident of non-compliance of the Written Guidelines was noted by the Company during the six months ended 30 September 2019.

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

Hong Kong, 29 November 2019

