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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 2020

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The board of directors (the “Board”) 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 2020, together with the comparative figures for the corresponding period in 2019, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2020

		For the six months ended	
		30 September	
		2020	2019
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
Revenue	<i>2</i>	17,758	26,885
Cost of sales		(9,678)	(16,622)
Gross profit		8,080	10,263

		For the six months ended	
		30 September	
		2020	2019
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	HK\$'000
Other income and gains	3	783	574
Provision for expected credit loss allowance on trade receivables		(10,844)	(9,153)
Reversal of expected credit loss allowance on trade receivables		235	311
Selling and distribution expenses		(21,610)	(20,239)
Administrative expenses		(15,337)	(16,629)
Finance costs	4	<u>(145)</u>	<u>(302)</u>
Loss before tax	5	(38,838)	(35,175)
Income tax expense	6	<u>–</u>	<u>–</u>
Loss for the period attributable to owners of the Company		<u>(38,838)</u>	<u>(35,175)</u>
Loss per share attributable to owners of the Company			
– Basic and diluted	8	<u>HK(2.68) cents</u>	<u>HK(2.42) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2020

	For the six months ended 30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the period	(38,838)	(35,175)
Other comprehensive income/(loss)		
<i>Items that may be reclassified subsequently to profit and loss:</i>		
Exchange differences arising on translation of foreign operations	<u>1,007</u>	<u>(5,688)</u>
Other comprehensive income/(loss) for the period, net of income tax	<u>1,007</u>	<u>(5,688)</u>
Total comprehensive loss for the period attributable to owners of the Company	<u>(37,831)</u>	<u>(40,863)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2020

		As at 30 September 2020 (Unaudited) <i>HK\$'000</i>	As at 31 March 2020 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	<i>9</i>	3,198	4,134
Right-of-use assets	<i>10</i>	1,933	3,981
Prepayment and deposits		2,070	3,117
Total non-current assets		7,201	11,232
Current assets			
Inventories		2,103	1,022
Trade receivables	<i>11</i>	16,959	26,892
Prepayments, deposits and other receivables		16,602	14,632
Cash and cash equivalents		24,745	51,146
Total current assets		60,409	93,692
Current liabilities			
Trade payables	<i>12</i>	2,531	1,354
Other payables, accruals and deposits from customers		31,551	30,507
Contract liabilities		3,305	3,686
Income tax payable		712	712
Lease liabilities		2,013	2,752
Due to related companies		314	185
Due to directors of the Company		3,123	2,433
Total current liabilities		43,549	41,629

		As at 30 September 2020 (Unaudited) <i>HK\$'000</i>	As at 31 March 2020 (Audited) <i>HK\$'000</i>
Net current assets		<u>16,860</u>	<u>52,063</u>
Total assets less current liabilities		<u>24,061</u>	<u>63,295</u>
Non-current liabilities			
Lease liabilities		222	1,550
Contract liabilities		<u>–</u>	<u>75</u>
Total non-current liabilities		<u>222</u>	<u>1,625</u>
Net assets		<u><u>23,839</u></u>	<u><u>61,670</u></u>
Equity			
Equity attributable to owners of the Company			
Share capital	<i>13</i>	72,576	72,576
Reserves		<u>(48,737)</u>	<u>(10,906)</u>
Total equity		<u><u>23,839</u></u>	<u><u>61,670</u></u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 September 2020

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

The condensed consolidated financial statements of the Company for the six months ended 30 September 2020 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 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

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 2020 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 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 2020. Other than additional accounting policies resulting from application of amendments to HKFRSs and application of certain accounting policies which became relevant to the Group, 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 2020.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 April 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 (Revised) and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKFRS 3 (Revised)	Definition of a Business

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period had no significant impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements of the Group.

Accounting policies newly applied by the Group

The Group has applied the following accounting policies which became relevant to the Group in the current interim period:

(a) Lease modifications (the Group as a lessee)

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

(b) Government grants

Government grants relate to income that are receivables as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

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, finance costs and head office and corporate expenses.

(a) Operating segments

	Distribution and trading of pharmaceutical products		Distribution and trading of tea and other food products		Total	
	For the six months ended 30 September					
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Segment revenue:						
Sales to external customers	1,529	1,333	16,229	25,552	17,758	26,885
Other income	291	–	360	266	651	266
Total	<u>1,820</u>	<u>1,333</u>	<u>16,589</u>	<u>25,818</u>	<u>18,409</u>	<u>27,151</u>
Segment results	<u>(3,395)</u>	<u>(3,923)</u>	<u>(28,683)</u>	<u>(23,652)</u>	<u>(32,078)</u>	<u>(27,575)</u>
Reconciliation:						
Bank interest income					132	308
Corporate and other unallocated expenses					(6,747)	(7,606)
Finance costs					(145)	(302)
Loss before tax					<u>(38,838)</u>	<u>(35,175)</u>

(b) Geographical information

	For the six months ended	
	30 September	
	2020	2019
	(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 Special Administrative Region		
("Hong Kong")	14,139	23,990
Hong Kong	1,529	1,333
Elsewhere in Asia	2,090	1,562
	<u>17,758</u>	<u>26,885</u>

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	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Other income within the scope of HKFRS 15		
Franchise income, recognised over time	<u>61</u>	<u>200</u>
Other income and gains from other sources		
Bank interest income	132	308
Gain on lease modification	81	–
Government subsidies	481	–
Others	28	66
	<u>722</u>	<u>374</u>
Total other income and gains	<u>783</u>	<u>574</u>

4. FINANCE COSTS

	For the six months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on lease liabilities	<u>145</u>	<u>302</u>

5. LOSS BEFORE TAX

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

	For the six months ended	
	30 September	
	2020	2019
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories recognised as an expense	9,356	16,168
Depreciation on property, plant and equipment	1,105	934
Depreciation on right-of-use assets	1,281	2,238
Net expected credit losses ("ECL") of trade receivables	<u>10,609</u>	<u>8,842</u>

6. INCOME TAX EXPENSE

During the six months ended 30 September 2020 and 2019 respectively, no provision for Hong Kong profits tax or Enterprise Income Tax has been made as the Group did not generate any assessable profits arising in Hong Kong or the PRC during the periods.

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 payment of any interim dividend for the six months ended 30 September 2020 (six months ended 30 September 2019: Nil).

8. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic loss per share is based on the loss for the six months ended 30 September 2020 attributable to owners of the Company of approximately HK\$38,838,000 (six months ended 30 September 2019: HK\$35,175,000) and the weighted average number of ordinary shares of 1,451,520,000 (six months ended 30 September 2019: 1,451,520,000) in issue during the period.

For the six months ended 30 September 2020 and 2019 respectively, the computation of diluted loss per share did not assume the Company's 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 2020, the Group acquired property, plant and equipment of approximately HK\$56,000 (for the six months ended 30 September 2019: HK\$175,000).

10. RIGHT-OF-USE ASSETS

The Group has entered into a 3-year new lease agreement during the six months ended 30 September 2020. Right-of-use assets amounted to HK\$60,000 has been recognised for the period accordingly (for the six months ended 30 September 2019: HK\$6,446,000).

11. TRADE RECEIVABLES

	As at 30 September 2020 (Unaudited) <i>HK\$'000</i>	As at 31 March 2020 (Audited) <i>HK\$'000</i>
Trade receivables	65,494	63,571
<i>Less: ECL allowances</i>	<u>(48,535)</u>	<u>(36,679)</u>
	<u>16,959</u>	<u>26,892</u>

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 90 days (for the year ended 31 March 2020: 30 to 90 days). 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 period/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 ECL of trade receivables are provided to trade receivables. Trade receivables are non-interest-bearing.

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

	As at 30 September 2020 (Unaudited) HK\$'000	As at 31 March 2020 (Audited) HK\$'000
Within 1 month	1,962	4,658
2 to 3 months	2,953	5,523
4 to 12 months	11,793	16,576
Over 12 months	251	135
	<u>16,959</u>	<u>26,892</u>

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

	As at 30 September 2020 (Unaudited) HK\$'000	As at 31 March 2020 (Audited) HK\$'000
Current (neither past due nor impaired)	4,915	9,307
Within 1 to 3 months overdue	3,001	3,874
Within 4 to 12 months overdue	9,043	13,576
Over 12 months overdue	–	135
	<u>16,959</u>	<u>26,892</u>

The movements in the provision for ECL allowances of trade receivables are as follows:

	As at 30 September 2020 (Unaudited) HK\$'000	As at 31 March 2020 (Audited) HK\$'000
At the beginning of the period/year	36,679	25,221
Provision for ECL allowance	10,844	15,217
Reversal of ECL allowance	(235)	(2,014)
Exchange realignment	1,247	(1,745)
At the end of period/year	<u>48,535</u>	<u>36,679</u>

As at 30 September 2020, the Group's trade receivables included an amount of HK\$400,000 (31 March 2020: Nil) 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 was beneficially owned as to 85.5% (31 March 2020: 85.5%) and 14.5% (31 March 2020: 14.5%) by Dr. Chiu Ka Leung ("Dr. Chiu") and Mr. Jiao Shaoliang ("Mr. Jiao"), respectively. Both Dr. Chiu and Mr. Jiao were executive directors and shareholders of the Company, while Dr. Chiu was also a substantial shareholder of the Company.

The balances due from Ideality Group were repayable on similar credit terms to those offered to the major customers of the Group and of which approximately HK\$400,000 (31 March 2020: Nil) were past due at 30 September 2020. Based on past experience, the directors of the Company determined that provision for ECL allowance of approximately HK\$12,000 (31 March 2020: Nil) was made as at 30 September 2020 in respect of these balances.

[@] *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:

	As at 30 September 2020 (Unaudited) HK\$'000	As at 31 March 2020 (Audited) HK\$'000
Current and not yet due	25	88
Within 1 to 3 months overdue	1,097	718
Within 4 to 12 months overdue	839	70
Over 12 months overdue	570	478
	<u>2,531</u>	<u>1,354</u>

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

	As at 30 September 2020 (Unaudited) HK\$'000	As at 31 March 2020 (Audited) HK\$'000
Yunnan Longrun Tea Group Company Limited [®] ("LRTG")		
雲南龍潤茶業集團有限公司	323	244
Fengqing Longrun Tea Company Limited [®] ("FLRT")		
鳳慶龍潤茶業有限公司	67	7
Changning Longrun Tea Company Limited [®] ("CLRT")		
昌寧縣龍潤茶業有限公司	33	7
Yunnan Longfar Pharmaceutical Company Limited [®] ("YNLF")		
雲南龍發製藥股份有限公司	—	32
	423	290

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. 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. On 11 May 2020, Dr. Chiu and Mr. Jiao resigned as executive directors of YNLF. 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.*

13. SHARE CAPITAL

	30 September 2020 (Unaudited) HK\$'000	31 March 2020 (Audited) HK\$'000
<i>Authorised:</i>		
5,000,000,000 ordinary shares of HK\$0.05 each	<u>250,000</u>	<u>250,000</u>
	Number of ordinary shares of HK\$0.05 each	Amount HK\$'000
<i>Issued and fully paid:</i>		
At 31 March 2020 (audited) and 30 September 2020 (unaudited)	<u>1,451,520,000</u>	<u>72,576</u>

14. EQUITY COMPENSATION PLANS

Share Option Scheme

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

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

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

The offer of a grant of share options under the Scheme may be accepted within 28 days from the date of offer upon payment of a nominal consideration of HK\$10 in total by the grantee. The exercise period of the share options granted is determined by the directors of the Company, save that such a period shall not be more than 10 years from the date of offer of the share options subject to the provisions for early termination as set out in the Scheme. Unless otherwise determined by the directors 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. All share options are exercisable from 25 November 2016 to 24 November 2021 (both days inclusive).

The following share options were outstanding under the Scheme:

	Weighted average exercise price HK\$ Per share	Number of options
At 31 March 2020 (audited) and 30 September 2020 (unaudited)	<u>0.3</u>	<u>51,400,000</u>

No share options were granted, exercised or lapsed under the Scheme during the six months ended 30 September 2020 (2019: Nil).

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

15. EVENTS AFTER THE REPORTING PERIOD

Government grants in respect of COVID-19 related subsidies

The Group applied for the “Employment Support Scheme” provided by the Hong Kong government. Subsequent to 30 September 2020, the Group received subsidies amounted to approximately HK\$486,000 as compensation to the Group’s salary costs from September to November 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the six months ended 30 September 2020, revenue of the Group decreased by approximately 33.9% to approximately HK\$17,758,000 (six months ended 30 September 2019: HK\$26,885,000). The decrease was mainly due to the decrease in revenue brought by the adverse effect of COVID-19 pandemic on the general economy, in particular on the traditional retail market in the PRC. Gross profit of the Group decreased by approximately 21.3% to approximately HK\$8,080,000 for the six months ended 30 September 2020 (six months ended 30 September 2019: HK\$10,263,000). The decrease in gross profit was mainly attributable to the decrease in revenue. Gross profit margin for the six months ended 30 September 2020 improved to 45.5% from 38.2% 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.

Selling and distribution expenses of the Group increased to approximately HK\$21,610,000 for the six months ended 30 September 2020 (six months ended 30 September 2019: HK\$20,239,000). Such increase was mainly due to the increase in rental and advertising expenses.

Administrative expenses of the Group decreased by approximately 7.8% to approximately HK\$15,337,000 for the six months ended 30 September 2020 (six months ended 30 September 2019: HK\$16,629,000). The decrease in administrative expenses was mainly attributable to the decrease in depreciation on right-of-use assets.

Provision for ECL allowance on trade receivables for the six months ended 30 September 2020 increased to HK\$10,844,000 (six months ended 30 September 2019: HK\$9,153,000). Such increase was mainly due to the increase in allowance made to customers resulting from the general adverse effects of the COVID-19 pandemic on the PRC economy and in particular to the retail industry.

Loss for the period attributable to owners of the Company for the six months ended 30 September 2020 amounted to approximately HK\$38,838,000 (six months ended 30 September 2019: loss of HK\$35,175,000). 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 brought by the general adverse effects of the COVID-19 pandemic on the PRC economy and in particular to the retail industry.

Basic loss per share was HK2.68 cents for the six months ended 30 September 2020 against basic loss per share of HK2.42 cents for the six months ended 30 September 2019.

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, in particular the COVID-19 pandemic causing disruptions in the traditional retail industry, the Group continued to strengthen its relationship with franchisees and to diversify its customer base by promoting 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\$16,229,000 (six months ended 30 September 2019: HK\$25,552,000), accounting for approximately 91.4% (six months ended 30 September 2019: 95.0%) of the Group’s total revenue.

During 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.

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 2020, the Group managed a network comprising a total of over 580 tea shops located in the PRC. Given the challenging retail market, in particular of the temporary disruption of the operation of some of the tea shops due to the COVID-19 pandemic, the management will continue to strengthen its relationship with its franchisees with a view to maintain its business position when the retail market gradually returning to normal.

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 2,500 square metres. COVID-19 pandemic has affected the tourist industry in the PRC. With the gradual recovery of the tourism in Yunnan and the encouragement by the local government of tourism related selling activities, the operating environment of tourists related retail sales were expected to improve in the near 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. During the period under review, the direct selling industry in the PRC had been affected by the lockdown and social distancing measures which imposed by the PRC government in order to deter the spread of COVID-19 pandemic.

Healthcare and Pharmaceutical Business

For the six months ended 30 September 2020, revenue from healthcare and pharmaceutical business was approximately HK\$1,529,000 (six months ended 30 September 2019: HK\$1,333,000), accounting for approximately 8.6% (six months ended 30 September 2019: 5.0%) of the Group's total revenue. For the period under review, the increase in revenue of the Group from the healthcare and pharmaceutical business was mainly due to the expansion of its distribution channel and customer base.

PROSPECTS

The Group's operating environment remains very challenging. The outbreak of COVID-19 pandemic rapidly spread around the globe and caused pandemic crisis worldwide has significantly affected the PRC economy. Trade tension between the PRC and the United States also brings pressure in the PRC economy. Traditional retail sales of consumer goods in the PRC has been significantly affected and showing a continuous slowdown. It is likely that the general consumer market in the PRC will continue to face uncertainties and remain very competitive.

With the decisive actions taken by the PRC government, the COVID-19 pandemic has been contained and economic activities are being gradually resumed. We believe that the PRC economy will be stabilising in the coming year and the encouragement of domestic consumption by the PRC government shall present opportunities for the Group.

Despite the uncertainties, the Group will continue to focus on brand building and new product development and be prepared to take advantage of the economic recovery from the COVID-19 pandemic.

Liquidity and Financial Resources

The Group has consistently maintained sufficient working capital. As at 30 September 2020, the Group had current assets of approximately HK\$60,409,000 (31 March 2020: HK\$93,692,000) and cash and cash equivalents of approximately HK\$24,745,000 (31 March 2020: HK\$51,146,000). The Group's current liabilities as at 30 September 2020 were approximately HK\$43,549,000 (31 March 2020: HK\$41,629,000).

As at 30 September 2020, total equity was approximately HK\$23,839,000 (31 March 2020: HK\$61,670,000). The Group had lease liabilities of approximately HK\$2,235,000 as at 30 September 2020 (31 March 2020: HK\$4,302,000). The gearing ratio as at 30 September 2020, being the ratio of total liabilities to total equity, was approximately 183.6% (31 March 2020: 70.1%).

Employees

As at 30 September 2020, the Group had 246 employees (31 March 2020: 236 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 2020, 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 2020, no Group's assets have been pledged.

REVIEW OF FINANCIAL INFORMATION

The interim financial report for the six months ended 30 September 2020 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 2020.

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 (the "CG Code") contained in Appendix 14 to the Listing Rules during the six months ended 30 September 2020, save for the deviation from the code provision E.1.2.

Code Provision E.1.2 of the CG Code stipulates that the chairman should attend the annual general meeting of the Company. Due to the COVID-19 pandemic, the chairman was unable to attend the annual general meeting of the Company held on 28 August 2020. The chairman had arranged for other directors and management, who are well-versed in the Company's business and affairs, to attend the meeting and communicate with the Shareholders.

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 4 November 2020.

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

Hong Kong, 27 November 2020

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.