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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)**

### **UPDATE ON SUSPENSION OF TRADING**

**AND**

### **UPDATE ON PROGRESS OF RESUMPTION**

This announcement is made by the board of directors (the “**Board**”) of Longrun Tea Group Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”), pursuant to Rule 13.24A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Reference is made to the announcement of the Company dated 30 June 2017 in relation to, among other things, delay in publication of annual results and despatch of annual report for the year ended 31 March 2017 and proposed change of auditors, the announcement of the Company dated 4 October 2017 in relation to the poll results of the extraordinary general meeting, and the announcements dated 15 August 2017, 18 September 2017 and 17 October 2017 in relation to updates on suspension of trading (collectively, the “**Announcements**”). Capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements unless stated otherwise.

## **UPDATE ON SUSPENSION OF TRADING**

### **Background – the Audit Findings**

During the performance of the audit work of the Company's consolidated financial statements for the year ended 31 March 2017, the previous auditors of the Company identified certain inconsistencies between the cash and bank balance and the bank confirmation of Yunnan Longrun Tea Technology Company Limited ("YNLRT"), a wholly-owned subsidiary of the Company.

After the management of YNLRT was informed of the Audit Findings, a preliminary internal review (the "Review") was conducted to investigate the relevant matters. Based on the Review, the management of YNLRT noted that the accounting staff of YNLRT had failed to make appropriate entries in the accounts of YNLRT to reflect a short term bridging loan not exceeding RMB140,000,000 (the "Loan") advanced pursuant to an agreement (the "Loan Agreement") entered into between YNLRT and an independent third party (the "Independent Third Party") on 1 September 2016, which resulted in the Inconsistencies. The management further noted that the reasons for entering into the Loan Agreement were (i) to facilitate the Independent Third Party to invest in Longrun tea products, and (ii) to make a reasonable interests income for the Group.

On 1 September 2016, the Independent Third Party and 雲南龍潤茶業集團有限公司 (the "Supplier") entered into a tea investment and storage agreement (the "ISA"), pursuant to which the Independent Third Party would invest in quality Longrun tea products for a total consideration of RMB200,000,000, and the Supplier would provide suitable storage for the tea products for a term of two years. On the same date, for the purpose of the investment in Longrun tea products, the Independent Third Party and YNLRT entered into the Loan Agreement, the major terms of which are as follows:

Date: 1 September 2016

Parties: YNLRT as lender

Independent Third Party as borrower

Loan amount: Not exceeding RMB140,000,000

Interest rate: 9% per annum

Term: 1 October 2016 to 20 March 2017

Pursuant to the Loan Agreement, the proceeds of the Loan would be used exclusively to invest in Longrun tea products with aging potential. YNLRT has been granted an exclusive right to purchase the tea products and tea-related products manufactured by the Supplier for its onward pursuant to a purchase agreement dated 12 May 2009 between the Supplier and YNLRT (the “**Purchase Agreement**”).

It was intended that after the tea products aged while stored in a controlled environment and resulted in an increase in value, the Independent Third Party would call for delivery of the tea products. The Supplier would then supply the tea products to YNLRT pursuant to the provisions of the Purchase Agreement for YNLRT’s onward sale to the Independent Third Party. Eventually such sale would be recorded as revenue in the books of YNLRT upon delivery.

However, upon maturity of the Loan Agreement, the Independent Third Party indicated that it had changed its investment strategy and would use the available funding to support the development of its principal business in its place of operation. After further discussions and negotiations, the Independent Third Party and the Supplier entered into a termination agreement on 17 April 2017, pursuant to which the Supplier would refund the entire amount received by it under the ISA, and the Independent Third Party would use such refund to settle the loan amount it owed to YNLRT under the Loan Agreement. The loan amount together with interests accrued thereon were fully repaid to YNLRT by June 2017.

## **AUP report**

Baker Tilly was engaged by the Company in June 2017 to perform the AUP to specifically address the Audit Findings. During its field work, Baker Tilly had (1) obtained and reviewed all relevant documents in relation to the loan transaction between YNLRT and the Independent Third Party including without limitation the Loan Agreement, the ISA, vouchers and bank receipts for payments by YNLRT in relation to the loan payments, vouchers and bank receipts for loan repayment and vouchers and bank receipts for interests received from the Independent Third Party; (2) conducted interview with the management of YNLRT; (3) visited and conducted interview with the Independent Third Party; and (4) accompanied by the accounting staff of YNLRT to go to the banks to re-print and obtain the bank statements of YNLRT during the period between April 2016 and May 2017 and requested the officers of the banks to stamp the bank statements provided by them as verification.

Baker Tilly issued the AUP report (the “**Report**”) to the Board on 17 November 2017. In the Report, Baker Tilly identified certain internal control deficiencies of the Group. The Board noted the above deficiencies and considering the key findings and recommendations set out in the Report. Remedial measures will be adopted by the Board to address the deficiencies.

## **UPDATE ON PROGRESS OF RESUMPTION**

Based on the current progress, the Company expects to complete the following in March 2018:

- (1) publish the key findings of the Report including the recommendations and remedial measures;
- (2) publish the 2017 Annual Results; and
- (3) publish the interim results for the six months ended 30 September 2017.

## **CONTINUED SUSPENSION OF TRADING**

Trading in the shares of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on 15 June 2017 and will remain suspended until further notice.

By Order of the Board

**Longrun Tea Group Company Limited**

**Chiu Ka Leung**

*Chairman of the Board*

Hong Kong, 28 February 2018

As at the date of this announcement, the Board comprises:

*Executive Directors:*

Dr. Chiu Ka Leung

Ms. Yeh Shu Ping

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