

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



LongRun
龍潤

LONGRUN TEA GROUP COMPANY LIMITED 龍潤茶集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2898)

KEY FINDINGS OF INDEPENDENT AGREED-UPON PROCEDURES REPORT AND REVISED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

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**”).

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, 17 October 2017 and 28 February 2018 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.

KEY FINDINGS OF INDEPENDENT AGREED-UPON PROCEDURES REPORT

AUP report

Baker Tilly was engaged by the Company in June 2017 to perform the AUP to specifically address the Audit Findings. For the background of the Audit Findings, please refer to the Company's announcement dated 28 February 2018.

During its field work, Baker Tilly had, among others, (1) obtained and reviewed the accounting and financial documents of the subsidiaries of the Company for the period from April 2016 to May 2017, including without limitation the financial statements, bank transaction records, monthly bank balances, bank reconciliation statements and bank balances set out in the management accounts, and supporting documents for all payments exceeding HK\$100,000 or RMB100,000; and (2) carried out interviews with the management of the Group and the Independent Third Party and reviewed the documents relating to the transaction contemplated under the Loan Agreement.

Baker Tilly issued the AUP report (the “**Report**”) to the Board on 17 November 2017, in which Baker Tilly identified certain internal control deficiencies of the Group.

Summary of key findings set out in the Report

The causes of the Audit Findings as referred to in the Report were in consonance with the findings of the preliminary review conducted by the management of YNLRT to investigate the relevant matters after the management was informed of the Audit Findings. A summary of the key findings set out in the Report is as follows:

- (a) The transaction contemplated under the Loan Agreement was approved in writing by two directors of YNLRT. The transaction was neither unanimously approved by the board of directors of YNLRT nor the Board.

- (b) The then accounting manager of YNLRT (the “**Accounting Manager**”) prepared the application for the transfer of an amount of RMB60,000,000 under the Loan Agreement, upon the request of the Independent Third Party, which was earlier than the drawdown date set out in the Loan Agreement. To cover up his oversight, the Accounting Manager did not make the relevant entries in the accounting books of YNLRT. Only the Accounting Manager and the then cashier knew about the omission, which later resulted in the Inconsistencies.
- (c) Based on the financial information of the Company for the year ended 31 March 2016, the assets ratio in respect of the Loan Agreement was 50.12%, and accordingly the transaction contemplated under the Loan Agreement constituted a major transaction of the Company under the Listing Rules. Pursuant to Chapter 14 of the Listing Rules, the Company should have notified the Stock Exchange of the transaction, published an announcement, issued a circular to shareholders, obtained shareholders’ approval or written shareholders’ approval in lieu of holding a general meeting.
- (d) The auditors of YNLRT did not issue a qualified auditors’ opinion on the accounts of YNLRT for the financial year ended 31 December 2016. It is believed that the auditors of YNLRT have failed to notice the Inconsistencies.
- (e) There were occasions which the accounting staff of YNLRT had not recorded each and every transactions in the accounting books, as they believed that certain transactions could offset against each other. Such practice might affect the accuracy and comparability of the Group’s financial statements, and it was not in compliance with the International Accounting Standards.
- (f) Baker Tilly did not identify (a) any loan agreement entered into by the Group with a third party in favour of the third party, other than the Loan; or (b) any transaction entered into by the Group which is not in its ordinary and usual course of business.

Remedial measures

Having considered the key findings and recommendations set out in the Report, the Board has resolved to adopt various measures to strengthen its internal control procedures. Set out below are the details of the major deficiencies in the Group's internal control procedures identified by Baker Tilly, the proposed remedial measures to be adopted by the Group and the current status of the implementation of the proposed remedial measures:

Major deficiencies	Proposed remedial measures	Status
The Group has insufficient manpower to execute its accounting and internal control procedures.	<ul style="list-style-type: none">• The two accounting staff, namely the Accounting Manager and the then cashier who have been suspended from work since May 2017 pending the results of the preliminary review being conducted by the management of YNLRT were dismissed.• Two new staff will be appointed to take up the duties of the two accounting staff who have been suspended from work• YNLRT will recruit one vice president in finance to strengthen its management of its accounting and finance function.• The Group will establish an internal control committee, which consists of two executive Directors, the chairman of the Audit Committee and one independent non-executive Director. The internal control committee will be responsible for enhancing the internal control procedures and corporate governance of the Group.• The Group will recruit one internal control auditor in Hong Kong to review payments, books and financial records of the Group. The internal control auditor will directly report to the internal control committee.	Dismissed in September 2017 Appointed in June 2017 Recruited in January 2018 In progress In progress Effective from November 2017 Effective from November 2017 Effective from November 2017
The current financial procedures manual of the Group is inadequate.	<ul style="list-style-type: none">• The current financial procedures manual of the Group will be enhanced.• All payments of RMB3,000,000 to RMB7,990,000 (or its equivalent) will require prior approval from the board of directors of the subsidiary before execution.• All payments of exceeding RMB8,000,000 (or its equivalent) will require prior approval from the Board before execution.	

Major deficiencies	Proposed remedial measures	Status
The Group should engage independent consultancy services to improve its accounting, finance and internal control procedures.	<ul style="list-style-type: none"> • New auditors for YNLRT will be appointed. • Baker Tilly will be engaged to provide relevant training to directors, managers, finance and accounting staff of the Group. • Baker Tilly will be engaged to conduct a full scope review on the effectiveness of the internal control procedure of the Group during the period from 1 April 2017 to 31 January 2018. • Baker Tilly will be engaged as independent internal control consultant for 18 months to review the financial management system of the Group every six months. Such review reports will be directed to the internal control committee and the audit committee of the Company. 	Appointed in March 2018 Completed in February 2018 Engaged in March 2018 and the report was issued in June 2018 In progress

Major transaction – Loan Agreement

Listing Rules implications

Based on the financial information of the Company for the year ended 31 March 2016, the assets ratio in respect of the Loan Agreement exceeded 25% but was less than 100%, and accordingly the transaction contemplated under the Loan Agreement constituted a major transaction of the Company and was subject to reporting, announcement and shareholders' approval at general meeting requirements under Chapter 14 of the Listing Rules.

Under Rule 14A.19 and 14A.20 of the Listing Rules, the Stock Exchange has the power to deem any person to be a connected person. In light of the above, the transaction contemplated under the Loan Agreement might constitute a connected transaction of the Company subject to reporting, announcement and shareholders' approval requirements under Chapter 14A of the Listing Rules.

Non-compliance with the Listing Rules

The Company's failure to inform the Stock Exchange and comply with Chapters 14 and/or 14A of the Listing Rules at the time when the Loan Agreement was entered into constituted breaches of the relevant Listing Rules. The Company considers that such failure was an inadvertent oversight and an unintentional non-compliance with the Listing Rules.

The Loan had been fully settled by the Independent Third Party. As such, despite the unintentional non-compliance with the Listing Rules, the Board is of the view that the Loan Agreement will not have any detrimental effect on the financial position of the Company.

Future compliance

Save as disclosed above, the Company has not entered into any transaction which has not been disclosed as required under the Listing Rules. In order to better ensure future compliance with the Listing Rules in relation to the transactions entered or to be entered into by the Group and to prevent similar incident from happening again, the Company will strengthen the internal control process by carrying out thorough examination of each likely notifiable and/or connected transactions.

REVISED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

In view of the findings of Baker Tilly as set out in the Report, the interim results of the Company for the six months ended 30 September 2016 as disclosed in the Company's announcement dated 18 November 2016 have been revised to reflect the transaction contemplated under the Loan Agreement as follows.

Condensed consolidated statement of profit or loss *For the six months ended 30 September 2016*

	Revised figures to reflect the Loan Agreement (unaudited)	Figures previously published on 18 November 2016 (unaudited)
	HK\$'000	HK\$'000
REVENUE	66,189	66,189
Cost of Sales	<u>(37,356)</u>	<u>(37,356)</u>
Gross Profit	28,833	28,833
Other income and gains	2,735	2,735
Other income – loan interest income [^]	400	–
Selling and distribution expenses	(17,313)	(17,313)
Administrative expenses	(14,088)	(14,088)
Other operating expenses	(4,732)	(4,732)
Finance costs	<u>(20)</u>	<u>(20)</u>
LOSS BEFORE TAX	(4,185)	(4,585)
Income tax expense	<u>–</u>	<u>–</u>
LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	<u>(4,185)</u>	<u>(4,585)</u>
LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY		
–Basic	<u>(HK0.29/cent)</u>	<u>(HK0.32/cent)</u>
–Diluted	<u>(HK0.29/cent)</u>	<u>(HK0.32/cent)</u>

Condensed consolidated statement of comprehensive income

For the six months ended 30 September 2016

Revised figures to reflect the Loan Agreement (unaudited) <i>HK\$'000</i>	Figures previously published on 18 November 2016 (unaudited) <i>HK\$'000</i>
LOSS FOR THE PERIOD	(4,185)
OTHER COMPREHENSIVE LOSS	(4,585)
<i>Items that may be reclassified subsequently to profit and loss:</i>	
Exchange differences on translation of foreign operations	<u>(4,937)</u>
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	<u>(4,937)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	<u>(9,122)</u>
	<u>(9,517)</u>

[^] *representing interest income accrued under the Loan Agreement*

Condensed consolidated statement of financial position

30 September 2016

	Revised figures to reflect the Loan Agreement (unaudited)	Figures previously published on 18 November 2016 (unaudited)
	HK\$'000	HK\$'000
NON-CURRENT ASSET		
Property, plant and equipment	3,399	3,399
Total non-current asset	3,399	3,399
CURRENT ASSETS		
Inventories	5,327	5,327
Trade and bills receivables	34,228	34,228
Prepayments, deposits and other receivables	8,626	8,626
Loan receivable*	70,109	–
Tax recoverable	185	185
Time deposits with original maturity of more than three months	88,905	88,905
Cash and cash equivalents*	75,725	145,439
Total current assets	283,105	282,710
CURRENT LIABILITIES		
Trade payables	11,097	11,097
Other payables and accruals	48,044	48,044
Finance lease payables	402	402
Due to related companies	1,222	1,222
Due to directors	3,879	3,879
Total current liabilities	64,644	64,644
NET CURRENT ASSETS	218,461	218,066
TOTAL ASSETS LESS CURRENT LIABILITIES	221,860	221,465

	Revised figures to reflect the Loan Agreement (unaudited)	Figures previously published on 18 November 2016 (unaudited) HK\$'000
NON-CURRENT LIABILITIES		
Finance lease payables	673	673
Deferred income	<u>4,157</u>	<u>4,157</u>
Total non-current liabilities	<u>4,830</u>	<u>4,830</u>
Net assets	<u>217,030</u>	<u>216,635</u>
EQUITY		
Equity attributable to owners of the Company		
Issued Capital	72,476	72,476
Reserves	<u>144,554</u>	<u>144,159</u>
Total equity	<u>217,030</u>	<u>216,635</u>

* *Reclassifying cash and cash equivalent to Loan Receivable by the amount of principal and interest accrued under the Loan Agreement*

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, 22 June 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