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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,
SUPPLEMENTAL INFORMATION ON
AUDIT FINDINGS AND AUP REPORT,
AND
SUBSEQUENT REMEDIAL MEASURES**

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 (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Reference is made to the announcements of the Company dated 28 February 2018, 22 June 2018, 24 August 2018 and 7 November 2018 in relation to the Company’s updates on suspension of trading (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

Reference is made to the Company's announcements dated 20 September 2017 and 24 August 2018 regarding the Resumption Conditions imposed on the Company by the Stock Exchange. The Company has been taking appropriate actions to fulfil the Resumption Conditions, including submitting a preliminary resumption proposal to the Stock Exchange. The Company will continue to keep the shareholders and potential investors of the Company informed of the progress of and updates to resumption as and when appropriate.

SUPPLEMENTAL INFORMATION ON AUDIT FINDINGS AND AUP REPORT

Reference is made to the Company's announcement dated 24 August 2018, in particular, the sections headed "Background of the Audit Findings" and "AUP Report". In addition to the information previously disclosed, the Company wishes to provide the following supplemental information on the events leading to the Audit Findings:

- (a) On 1 September 2016, the Independent Third Party (being the borrower under the Loan Agreement who was a third party independent of the Company and its connected person (as defined under the Listing Rules)) and the Supplier (being a connected person of the Company) entered into a tea investment and storage agreement (the "ISA"), pursuant to which the Independent Third Party would invest not less than RMB200,000,000 in quality Longrun tea products and the Supplier would provide suitable storage for the tea products for a term of two years. In order to facilitate the investment of Longrun tea products by the Independent Third Party pursuant to the ISA, on the same date, the Independent Third Party as borrower and YNLRT (a wholly-owned subsidiary of the Company) as lender entered into the Loan Agreement in respect of a short term bridging loan of up to RMB140,000,000. The Loan Agreement stipulated that the Loan proceeds would be used solely for the investment in Longrun tea products pursuant to the ISA.
- (b) The Supplier was owned as to 97% by Dr. Chiu Ka Leung (the controlling shareholder (as defined under the Listing Rules), the chairman and an executive director of the Company) and as to 3% by Mr. Jiao (an executive director of the Company), and thereby was a connected person of the Company under the Listing Rules.

- (c) The first drawdown of the Loan pursuant to the Loan Agreement in the sum of RMB60,000,000 was approved by Mr. Jiao and was remitted by the Accounting Manager earlier than the Agreed Drawdown Date directly to the Supplier, at the direction of the Independent Third Party who was the borrower under the Loan Agreement. All subsequent drawdowns of the Loan were also remitted directly to the Supplier or its wholly-owned subsidiaries at the direction of the Independent Third Party, making a total Loan amount of RMB137,570,000. The intention and arrangement of having the Loan proceeds being remitted directly to the Supplier or its wholly-owned subsidiaries as opposed to the borrower (i.e., the Independent Third Party) was to control the usage of the Loan proceeds and prevent the Independent Third Party from applying the same for any purpose other than investment in Longrun tea products under the ISA.
- (d) The Longrun tea products to be invested by the Independent Third Party under the ISA were selected from the tea products already being stored at the Supplier's storage facilities with controlled humidity and temperature, and were intended to remain being stored at those storage facilities until the Independent Third Party's request for delivery in two years' time pursuant to the ISA. It was expected that the quality of the appropriately-stored tea products would age overtime, and accordingly their value would increase. According to the ISA, when the Independent Third Party requests from the delivery of the tea products stored at the Supplier's storage facilities in two years' time, the Independent Third Party would be required to complete the settlement procedure with YNLRT, at which time, YNLRT would generate revenue from the sale of tea products to the Independent Third Party.
- (e) Soon after the first drawdown of the Loan, the Accounting Manager realised his failure to observe the Agreed Drawdown Date. In order to cover his oversight, the Accounting Manager did not make relevant entries for the payments of the Loan proceeds in the accounting books of YNLRT, resulting in certain inconsistencies between the cash and bank balance and the bank confirmation of YNLRT (i.e., the Audit Findings), which was identified by the previous auditors of the Company during their performance of audit work of the Company's consolidated financial statements for the year ended 31 March 2017.

- (f) Upon maturity of the Loan Agreement on 20 March 2017, the Independent Third Party failed to repay the principal and interests accrued as stipulated under the Loan Agreement. The Accounting Manager noted the non-repayment and the management of YNLRT was informed of the same.
- (g) On 17 April 2017, after various discussions and negotiations between the Independent Third Party and the Supplier, the ISA was terminated by a termination agreement made between the Independent Third Party and the Supplier. Thereafter, at the instruction of the Independent Third Party, the Supplier and its wholly-owned subsidiaries transferred in aggregate a sum equivalent to the Loan amount together with a small portion of interests accrued to YNLRT as repayment under the Loan Agreement. The remaining interests accrued was settled and transferred directly by the Independent Third Party to YNLRT. The total Loan amount and interests were fully repaid to YNLRT by June 2017.

SUBSEQUENT REMEDIAL MEASURES

In May 2017, Baker Tilly (now known as Corporate Governance Professionals Limited) was engaged by the Company to perform certain agreed-upon procedures to specifically address the Audit Findings. Baker Tilly issued to the Board in November 2017 the AUP Report in which they had set out their key findings and recommendations. Having considered the said key findings and recommendations, the Company has adopted various measures to strengthen its internal control procedures. Regarding the recommendations, the Audit Committee considered that the remedial measures adopted and implemented by the Company were sufficient and adequate to address the deficiencies in the Company's internal control as identified by Baker Tilly and set out in the AUP Report. For details of the remedial measures implemented, please refer to the Company's announcement dated 24 August 2018.

In addition to the AUP Report, Baker Tilly has also been engaged by the Company as an independent internal control consultant to conduct a full scope review on the effectiveness of the internal control procedures of the Group. Baker Tilly had issued its first review report covering the period from 1 April 2017 to 31 January 2018 in June 2018. For the information of the first review report, please refer to the Company's announcement dated 24 August 2018. The draft second review report on the internal control procedures of the Group covering the period from 1 April 2018 to 30 September 2018 has also been recently issued and is currently being reviewed. Further information on the second review report will be published by the Company as and when appropriate.

CONTINUED SUSPENSION OF TRADING

Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 15 June 2017 until further notice pending the fulfilment of the Resumption Conditions.

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

Hong Kong, 11 February 2019

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