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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)**

**RENEWAL OF ANNUAL CAPS REGARDING  
CONTINUING CONNECTED TRANSACTIONS**

**THE PURCHASE AGREEMENT**

YNLRT and LRTG entered into the Purchase Agreement on 12 May 2009 in relation to the purchase of the Tea Products exclusively by YNLRT from LRTG for an initial term of 10 years commencing from on 12 May 2009 which is renewable automatically up to the expiry date to be determined by YNLRT. The Purchase Agreement (including the term on the automatic renewal) was approved by the then independent Shareholders at the extraordinary general meeting of the Company held on 14 July 2009.

The Board wishes to announce that YNLRT has confirmed with LRTG by way of a written confirmation dated 28 March 2019 that the term of the Purchase Agreement will be renewed until 31 March 2021.

**ANNUAL CAPS**

As the existing annual caps in respect of the transactions contemplated under the Purchase Agreement will expire on 31 March 2019 and the Company intends to continue the transactions with LRTG pursuant to the Purchase Agreement, the Company will seek the Independent Shareholders' approval for the annual caps in respect of such transactions for the two financial years ending 31 March 2021.

## **LISTING RULES IMPLICATION**

As at the date of this announcement, as Dr. Chiu (Controlling Shareholder and executive director of the Company) and Mr. Jiao (executive director of the Company) are interested in 97.0% and 3.0% of the equity interests of LRTG respectively, LRTG is an associate of Dr. Chiu and thus a Connected Person of the Company. In the circumstances, the transactions contemplated under the Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that one of the percentage ratios (other than the profits ratio) in respect of the Annual Caps for the transactions contemplated under the Purchase Agreement for each of the two financial years ending 31 March 2021 is more than 25.0%, the Annual Caps will be subject to the announcement, reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

A circular containing, among others, (i) further details of the Annual Caps; (ii) a letter from an independent financial adviser containing its advice to the Independent Board Committee and the Independent Shareholders on the Annual Caps; (iii) recommendation of the Independent Board Committee to the Independent Shareholders; and (iv) a notice of the EGM, will be despatched by the Company to the Shareholders as soon as practicable in accordance with the Listing Rules, which is currently expected to be on or before 18 April 2019.

## **INTERIM ARRANGEMENT BEFORE OBTAINING THE INDEPENDENT SHAREHOLDERS' APPROVAL**

The Board wishes to announce that, on 28 March 2019, YNLRT and LRTG entered into the Term Sheet in relation to the interim arrangement for the purchase of Tea Products during from 1 April 2019 to the date on which the Independent Shareholders' approval is obtained for the Annual Caps.

## **LISTING RULES IMPLICATION**

As disclosed in this announcement, Dr. Chiu and Mr. Jiao are interested in 97.0% and 3.0% of the equity interests of LRTG respectively, LRTG is an associate of Dr. Chiu and thus a Connected Person of the Company. In the circumstances, the transactions contemplated under the Term Sheet constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that all the percentage ratios (other than the profits ratio) in respect of the aggregate maximum purchase amount stipulated under the Term Sheet is more than 0.1% but less than 25.0% and the total consideration in aggregate is less than HK\$10,000,000, the transactions contemplated under the Term Sheet fall under Rule 14A.76(2) of the Listing Rules and are only subject to the announcement, reporting and annual review requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **BACKGROUND INFORMATION**

On 12 May 2009, YNLRT and LRTG entered into the Purchase Agreement in relation to the purchase of the Tea Products exclusively by YNLRT from LRTG for an initial term of 10 years commencing from 12 May 2009 which could be renewed automatically. Since the completion of the Group's acquisition of YNLRT in July 2009, the transactions contemplated under the Purchase Agreement constitute continuing connected transactions of the Company under the Listing Rules. The Purchase Agreement (including the term on the automatic renewal) was approved by the then independent Shareholders at the extraordinary general meeting of the Company held on 14 July 2009.

The annual caps in respect of the transactions contemplated under the Purchase Agreement for the three financial years ending 31 March 2019 were approved by the then independent Shareholders at the extraordinary general meeting of the Company convened and held on 16 June 2016 and such annual caps will expire on 31 March 2019.

For further information regarding the annual caps previously obtained by the Company for the three years ending 31 March 2019, please refer to the announcement of the Company dated 3 March 2016 and the circular of the Company dated 17 May 2016.

## **THE PURCHASE AGREEMENT**

The Purchase Agreement has stipulated that it has an initial fixed term of 10 years commencing on 12 May 2009 which is renewable automatically up to the expiry date to be determined by YNLRT.

The Board wishes to announce that, considering the business transactions between the Group and LRTG, by way of a written confirmation dated 28 March 2019, YNLRT has confirmed with LRTG that the term of the Purchase Agreement will be renewed until 31 March 2021. Save as the renewal of the term, the other provisions of the Purchase Agreement will remain unchanged.

The principal terms of the Purchase Agreement are as follows:

**Date** 12 May 2009

**Parties** (i) YNLRT

(ii) LRTG

**Term** From 12 May 2009 to 31 March 2021

**Grant of exclusive rights** YNLRT as the sole customer of LRTG, is granted an exclusive right to purchase the Tea Products from LRTG for onward distribution to the customers of YNLRT and to use the trademarks (including both registered and unregistered trademarks) and other intellectual properties owned by LRTG and its subsidiaries.

LRTG and its subsidiaries shall not allow any third parties (excluding third parties determined or designated by YNLRT) other than YNLRT to use their trademarks and other intellectual properties.

**Price determination**

The purchase price of the Tea Products will be the lower of (i) the production costs of the Tea Products or the book value of the inventory of LRTG plus a premium which does not exceed 10.0% of such production costs or book value; and (ii) the selling price of tea products of similar quality as the Tea Products which can be obtained by YNLRT from other independent manufacturers. The premium of 10.0% is determined on normal commercial terms with reference to historical costs incurred by LRTG to carry out its business.

**Termination rights**

YNLRT has the right, within the term thereof, to terminate the Purchase Agreement upon giving 30 days' prior written notice to LRTG, whereas LRTG will not terminate the Purchase Agreement during the term of the Purchase Agreement. Upon expiry of the term of the Purchase Agreement, the Purchase Agreement will be automatically renewed for a period to be determined by YNLRT unless both parties agree to terminate the Purchase Agreement before three months of the expiry of the term thereof.

**ANNUAL CAPS**

As the existing annual caps in respect of the transactions contemplated under the Purchase Agreement will expire on 31 March 2019 and the Company intends to continue the transactions with LRTG pursuant to the Purchase Agreement, the Company will seek the Independent Shareholders' approval for the annual caps in respect of such transactions for the two financial years ending 31 March 2021.

## Historical annual caps and actual transaction amount

The annual caps for the transactions contemplated under the Purchase Agreement for the three years ending 31 March 2019 and the actual amount of purchase of the Tea Products paid by the Group for the same periods are set out below:

	<b>Annual caps for the financial year ended/ending 31 March</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Historical annual caps	148,000	166,000	186,000
Actual amount of purchase of the Tea Products paid by the Group	68,939	43,695	52,627 (unaudited) (For the eleven months ended 28 February 2019)

## Proposed Annual Caps

The proposed Annual Caps are set out below:

	<b>Proposed Annual Caps for the financial year ending 31 March</b>	
	<b>2020</b>	<b>2021</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Annual Caps for the purchase of the Tea Products payable by the Group	46,000	46,000

The Annual Caps are determined with reference to (i) the historical amount of purchase of the Tea Products by the Group from LRTG; and (ii) the projected amount of purchase of the Tea Products by the Group from LRTG versus the projected amount of purchase of tea products by the Group from independent suppliers for the two years ending 31 March 2021.

## **REASONS FOR AND BENEFITS OF THE RENEWAL OF THE ANNUAL CAPS REGARDING CONTINUING CONNECTED TRANSACTIONS**

The Company is an investment holding company and its subsidiaries are principally engaged in the distribution of tea products, pharmaceutical products and other food products. LRTG was established in the PRC in August 2005 and is principally engaged in the research, manufacture and retail of Pu' erh tea products in the PRC.

Since the completion of the Group's acquisition of YNLRT in July 2009, the Group has been purchasing the Tea Products from LRTG and distributing such Tea Products through its distribution network. The transactions contemplated under the Purchase Agreement have been and will continue to be carried out on a regular and continuing basis in the ordinary and usual course of business of the Group. The Directors believe that it is in the interests of and beneficial to the Company to carry on the transactions with LRTG and to secure the exclusive supply of high quality tea products.

In order to reduce the Group's reliance of LRTG as its major supplier of tea products, YNLRT has been looking for tea manufacturers in Yunnan Province that is capable of providing quality tea products for the Group. In November 2018, YNLRT had engaged two independent suppliers to provide certain tea products for the Group. YNLRT anticipated that the proportion of tea products to be procured and purchased from independent suppliers would increase gradually. It is expected that purchases of the Tea Products from LRTG would account for less than 60.0% and 50.0% of total purchases of the tea products by the Group for the year ending 31 March 2020 and 31 March 2021 respectively.

Due to their respective interests in LRTG, Dr. Chiu and Mr. Jiao are regarded to be interested in the Purchase Agreement, and thereby Dr. Chiu and Mr. Jiao, as well as Dr. He William who was the brother-in-law of Dr. Chiu, had abstained from voting at the meeting of the Board convened and held to approve the written confirmation on the renewed term and the Annual Caps.

Having considered the above reasons and benefits to the Group, the Directors (excluding the independent non-executive Directors who will give their view after being advised by an independent financial adviser, Dr. Chiu, Mr. Jiao and Dr. He William) are of the view that the written confirmation on the renewed term and the Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

## **LISTING RULES IMPLICATION**

As at the date of this announcement, as Dr. Chiu (Controlling Shareholder and executive director of the Company) and Mr. Jiao (executive director of the Company) are interested in 97.0% and 3.0% of the equity interests of LRTG respectively, LRTG is an associate of Dr. Chiu and thus a Connected Person of the Company. In the circumstances, the transactions contemplated under the Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that one of the percentage ratios (other than the profits ratio) in respect of the Annual Caps for the transactions contemplated under the Purchase Agreement for each of the two financial years ending 31 March 2021 is more than 25.0%, the Annual Caps will be subject to the announcement, reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **GENERAL**

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Lam Siu Hung, Mr. Guo Guoqing, Mr. Kwok Hok Lun and Dr. Liu Zhonghua, has been established to advise the Independent Shareholders how to vote at the EGM on the resolution in respect of the Annual Caps, after taking into account the recommendations of an independent financial adviser, who will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The Company will disclose the information in relation to the continuing connected transactions with LRTG in its subsequent published annual report and accounts in accordance with Rule 14A.49 of the Listing Rules.



A circular containing, among others, (i) further details of the Annual Caps; (ii) a letter from an independent financial adviser containing its advice to the Independent Board Committee and the Independent Shareholders on the Annual Caps; (iii) recommendation of the Independent Board Committee to the Independent Shareholders; and (iv) a notice of the EGM, will be despatched by the Company to the Shareholders as soon as practicable in accordance with the Listing Rules, which is currently expected to be on or before 18 April 2019.

## **INTERIM ARRANGEMENT BEFORE OBTAINING THE INDEPENDENT SHAREHOLDERS' APPROVAL**

### **Reasons for and benefits of the interim arrangement**

The existing annual caps in respect of the transactions contemplated under the Purchase Agreement will expire on 31 March 2019. Considering the time required for arranging for the EGM, it is expected that the Independent Shareholders' approval for the Annual Caps would not be obtained on or before to 31 March 2019. In view of the circumstances, the Group will continue to purchase Tea Products from LRTG pursuant to the provisions of the Purchase Agreement, but with an aggregate maximum purchase amount of less than HK\$10,000,000 from 1 April 2019 to the Independent Shareholders' approval is obtained for the Annual Caps.

### **Term Sheet**

On 28 March 2019, YNLRT and LRTG entered into the Term Sheet in relation to the interim arrangement as described above, the principal terms of which are as follows:

<b>Date</b>	28 March 2019
<b>Parties</b>	(i) YNLRT (ii) LRTG
<b>Maximum purchase amount</b>	Not exceeding HK\$10,000,000
<b>Price determination</b>	Same as that provided in the Purchase Agreement

Due to their respective interests in LRTG, Dr. Chiu and Mr. Jiao are regarded to be interested in the Purchase Agreement, and thereby Dr. Chiu and Mr. Jiao, as well as Dr. He William who was the brother-in-law of Dr. Chiu, had abstained from voting at the meeting of the board of Directors convened and held to approve the Term Sheet.

Having considered the reasons for the interim arrangement, the Directors (including the independent non-executive Directors but excluding Dr. Chiu, Mr. Jiao and Dr. He William) are of the view that (i) the Term Sheet was entered into in the ordinary and usual course of business of the Group; and (ii) the provisions of the Term Sheet and the transactions contemplated thereunder are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### **Listing Rules implications**

As disclosed above, as Dr. Chiu and Mr. Jiao are interested in 97.0% and 3.0% of the equity interests of LRTG respectively, LRTG is an associate of Dr. Chiu and thus a Connected Person of the Company. In the circumstances, the transactions contemplated under the Term Sheet constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Given that all the percentage ratios (other than the profits ratio) in respect of the aggregate maximum purchase amount stipulated under the Term Sheet is more than 0.1% but less than 25.0% and the total consideration in aggregate is less than HK\$10,000,000, the transactions contemplated under the Term Sheet fall under Rule 14A.76(2) of the Listing Rules and are only subject to the announcement, reporting and annual review requirements but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **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 imposed by the Stock Exchange.

## DEFINITIONS

Unless the context requires otherwise, the following terms used in this announcement shall have the meanings as set out below:

“Annual Caps”	the annual caps for the amount of purchase of the Tea Products pursuant to the Purchase Agreement for the two financial years ending 31 March 2021
“associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Company”	Longrun Tea Group Company Limited (龍潤茶集團有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
“Connected Person”	has the meaning ascribed thereto in the Listing Rules
“Controlling Shareholder”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“Dr. Chiu”	Dr. Chiu Ka Leung, an executive Director, the chairman of the Board, the Controlling Shareholder and the brother of Mr. Jiao
“EGM”	an extraordinary general meeting of the Company to be convened and held for the purpose of considering, and if thought fit, approving the Annual Caps
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, namely Mr. Lam Siu Hung, Mr. Guo Guoqing, Mr. Kwok Hok Lun and Dr. Liu Zhonghua
“Independent Shareholder(s)”	Shareholder(s) other than Dr. Chiu, Mr. Jiao, and their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“LRTG”	龍潤茶業集團有限公司 (in English, for identification purpose only, Longrun Tea Group Limited), a company established in the PRC with limited liability owned as to 97% by Dr. Chiu and 3% by Mr. Jiao and thereby a Connected Person of the Company
“Mr. Jiao”	Mr. Jiao Shaoliang, an executive Director and the brother of Dr. Chiu
“Purchase Agreement”	the exclusive purchase agreement (獨家採購協議) dated 12 May 2009 entered into between YNLRT and LRTG in relation to the purchase of the Tea Products of LRTG with the renewed term
“PRC”	the People’s Republic of China, which shall, for the purpose of this announcement, exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Shareholder(s)”	holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed to it in the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)

“Tea Products”	the tea products and tea-related food products manufactured by LRTG
Term Sheet	the term sheet dated 28 March 2019 entered into between YNLRT and LRTG in relation to the interim arrangement for the purchase of Tea Products during from 1 April 2019 to the date on which the Independent Shareholders’ approval is obtained for the Annual Caps
“YNLRT”	雲南龍潤茶科技有限公司 (in English, for identification purpose only, Yunnan Longrun Technology Company Limited) (formerly known as 雲南龍潤商貿有限公司 (in English, for identification purpose only, Yunnan Longrun Trading Company Limited)), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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

Hong Kong, 28 March 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