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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)

CONTINUING CONNECTED TRANSACTIONS
FOR THE YEAR ENDING 31 MARCH 2022

Reference is made to the announcement of Longrun Tea Group Company Limited (the “**Company**”) dated 17 April 2020 in relation to the proposed continuing connected transactions of the Company. Unless the context otherwise requires, capitalised terms used herein shall have the same meaning as defined in the announcement.

THE PURCHASE AGREEMENT

On 7 May 2021, by way of a written confirmation on the same date, YNLRT has confirmed with LRTG that the term of the Purchase Agreement was renewed until 31 March 2023.

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 2023
Grant of exclusive rights	<p>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.</p> <p>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.</p>
Price determination	<p>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.</p>
Termination rights	<p>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.</p>

CONTINUING CONNECTED TRANSACTIONS FOR THE YEAR ENDING 31 MARCH 2022

Background

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.

Reasons for and benefits of the continuing connected transactions

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.

Term sheet

As the Company intends to (i) continue its purchase of tea products and tea-related food products (the "**Tea Products**") from LRTG pursuant to the Purchase Agreement; and (ii) continue to reduce its reliance on LRTG as its major supplier of tea products and increase its purchases from independent suppliers, YNLRT and LRTG entered into a term sheet on 7 May 2021 (the "**Term Sheet**") in relation to the purchase of Tea Products pursuant to the Purchase Agreement for the year ending 31 March 2022 with an aggregate maximum purchase amount of less than HK\$10,000,000, the principal terms of which are as follows:

Date	7 May 2021
Parties	(i) YNLRT
	(ii) LRTG

Maximum purchase amount Not exceeding HK\$10,000,000

Price determination Same as that provided in the Purchase Agreement.

The maximum purchase amount is 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 year ending 31 March 2021.

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 continuing connected transactions with LRTG, 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 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 and will continue to be suspended until further notice.

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

Hong Kong, 10 May 2021

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

Independent non-executive Directors:

Mr. Lam Siu Hung
Mr. Guo Guoqing
Mr. Kwok Hok Lun
Dr. Liu Zhonghua