

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Longrun Tea Group Company Limited, you should at once hand this circular and the accompanying form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, 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 circular.



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)**

**REVISED ANNUAL CAP AND PROPOSED ANNUAL CAPS FOR  
CONTINUING CONNECTED TRANSACTIONS**

**Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders**



**高銀融資有限公司**  
GOLDIN FINANCIAL LIMITED

A letter from the Board is set out on pages 3 to 9 and a letter from the Independent Board Committee is set out on page 10 of this circular. A letter from Goldin Financial containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 11 to 20 of this circular.

A notice convening the EGM to be held at 11:00 a.m. on 16 December 2014 at Unit 2201, 22/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong is set out on pages 26 and 27 of this circular. A form of proxy for use at the EGM is enclosed with this circular. If you are unable to attend the EGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

28 November 2014

<b>CONTENTS</b>
-----------------

	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	3
<b>Letter from the Independent Board Committee</b> .....	10
<b>Letter from Goldin Financial</b> .....	11
<b>Appendix — General information</b> .....	21
<b>Notice of EGM</b> .....	26

## DEFINITIONS

*In this circular, unless the context otherwise requires, the following terms shall have the following meanings:*

“Announcement”	the announcement of the Company dated 30 October 2014 in relation to the Supplemental Sales Agreement, the Revised Annual Cap and the Proposed Annual Caps
“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 Main Board of the Stock Exchange
“connected person”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“Dr. Chiu”	Dr. Chiu Ka Leung, the controlling Shareholder holding approximately 54.30% of the issued share capital of the Company as at the Latest Practicable Date and an executive Director
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among others, the Supplemental Sales Agreement, the Revised Annual Cap and the Proposed Annual Caps
“Goldin Financial”	Goldin Financial Limited, a licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) licensed to carry on type 6 (advising on corporate finance) regulated activity, being the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Supplemental Sales Agreement, the Revised Annual Cap and the Proposed Annual Caps
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Administrative Region of the PRC
“Ideality Group”	理想科技集團有限公司 (Ideality Technology Group Company Limited*), a company established in the PRC with limited liability
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors

\* For identification purposes only

## DEFINITIONS

“Independent Shareholder(s)”	Shareholder(s) other than Dr. Chiu, Mr. Jiao, and their respective associates
“Latest Practicable Date”	25 November 2014, being the latest practicable date prior to the printing of this circular to ascertain certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Jiao”	Mr. Jiao Shaoliang, an executive Director
“PRC”	The People’s Republic of China
“Proposed Annual Caps”	the proposed annual caps for the Transactions for the two financial years ending 31 March 2017
“Revised Annual Cap”	the revised annual cap for the Transaction for the period from 16 April 2014 to 31 March 2015
“Sales Agreement”	the sales agreement dated 16 April 2014 entered into between Ideality Group and Yunnan Longrun Tea in relation to the sales of the Tea Products
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Sales Agreement”	the supplemental agreement dated 30 October 2014 to the Sales Agreement, entered into between Ideality Group and Yunnan Longrun Tea
“Tea Products”	the tea products and tea-related food products
“Transactions”	the sales of the Tea Products to Ideality Group as stipulated under the Sales Agreement (as supplemented by the Supplemental Sales Agreement)
“Yunnan Longrun Tea”	雲南龍潤茶科技有限公司 (Yunnan Longrun Tea Technology Company Limited*), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent.

\* For identification purposes only

LETTER FROM THE BOARD



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)**

*Executive Directors:*

Dr. Chiu Ka Leung (*Chairman*)  
Ms. Yeh Shu Ping (*Vice-Chairman &  
Chief Executive Officer*)  
Mr. Jiao Shaoliang  
Dr. Lu Pingguo

*Independent Non-executive Directors:*

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

*Registered Office:*

Cricket Square  
Hutchins Drive, P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Head Office and Principal Place of  
Business in Hong Kong:*

Room 3007A–B  
Cable TV Tower  
9 Hoi Shing Road  
Tsuen Wan  
New Territories  
Hong Kong

28 November 2014

*To the Shareholders*

Dear Sir or Madam,

**REVISED ANNUAL CAP AND PROPOSED ANNUAL CAPS FOR  
CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

Reference is made to (i) the announcement of the Company dated 16 April 2014 regarding the Sales Agreement and the transactions contemplated thereunder; and (ii) the Announcement.

As the existing annual cap for the period from 16 April 2014 to 31 March 2015 in respect of the Transactions contemplated under the Sales Agreement may not be sufficient for the Group's future requirements, on 30 October 2014, Yunnan Longrun Tea and Ideality Group entered into the Supplemental Sales Agreement to (i) revise the existing annual cap for the period from 16 April 2014 to 31 March 2015 to the Revised Annual Cap; and (ii) set out the Proposed Annual Caps for the two financial years ending 31 March 2017.

## LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further details of the Supplemental Sales Agreement, the Revised Annual Cap and the Proposed Annual Caps; (ii) the letter of advice from Goldin Financial to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Sales Agreement, the Revised Annual Cap and the Proposed Annual Caps; (iii) the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Revised Annual Cap and the Proposed Annual Caps as well as voting at the EGM; and (iv) the notice of the EGM to the Shareholders.

### **REVISED ANNUAL CAP AND PROPOSED ANNUAL CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE SUPPLEMENTAL SALES AGREEMENT**

On 16 April 2014 (after trading hours), Yunnan Longrun Tea, as the seller, entered into the Sales Agreement with Ideality Group, as the buyer, in relation to the sales of the Tea Products for a term from 16 April 2014 to 31 March 2015, which constitutes continuing connected transactions of the Company under the Listing Rules.

As the existing annual cap for the period from 16 April 2014 to 31 March 2015 in respect of the Transactions contemplated under the Sales Agreement may not be sufficient for the Group's future requirements, on 30 October 2014, Yunnan Longrun Tea and Ideality Group entered into the Supplemental Sales Agreement to (i) revise the existing annual cap for the period from 16 April 2014 to 31 March 2015 to the Revised Annual Cap; and (ii) set out the Proposed Annual Caps for the two financial years ending 31 March 2017.

#### **Principal terms of the Supplemental Sales Agreement**

Set out below are the principal terms of the Supplemental Sales Agreement:

Date:	30 October 2014
Parties:	(i) Yunnan Longrun Tea (an indirect wholly-owned subsidiary of the Company), as the seller; and (ii) Ideality Group, as the buyer
Term:	From 16 April 2014 to 31 March 2017

#### *Subject matter*

Pursuant to the Supplemental Sales Agreement, Yunnan Longrun Tea will sell, and Ideality Group will purchase, the Tea Products for a term from 16 April 2014 to 31 March 2017.

Commencement of the Supplemental Sales Agreement is conditional upon the approval from the Independent Shareholders in relation to the Revised Annual Cap and the Proposed Annual Caps in accordance with the Listing Rules.

## LETTER FROM THE BOARD

### *Pricing basis*

The price and specifications of the Tea Products under the Transactions shall be set out in separate purchase order in each of the Transactions. There are no prevailing market prices for the Tea Products that can be obtained from either a recognised exchange or independent organisation. The sales of Tea Products are based on a fix unit price without pre-determined formulas. The price of each of the Tea Products for each purchase order under the Transactions shall be determined with reference to, including but not limited to, the quality (grading and year of production) and the quantity of the Tea Products for the respective purchase order. Tea Products can be classified to have different grading according to the quality, origin of raw materials used and the year of production. In general, Tea Products made from good quality raw tea leaves and manufactured years ago are considered of a higher grading, which are sold at a higher price.

The price and the terms of the purchase order shall be agreed after arm's length negotiation between the parties based on normal commercial terms, and in any event shall be no less favourable to the Company than that offered to independent third parties. In order to ensure that the prices charged under the Transactions are no less favourable to the Company than that offered to independent third parties, the Company shall before entering into any purchase order for the Transactions compare the price to be charged for the relevant Tea Products, with the prices charged under at least two comparable transactions offered to independent third parties. In the event that no such minimum number of comparable transactions with independent third parties are available, the Company shall make reference to prices charged under the Transactions with independent third parties for tea products and/or tea related products of similar quality and quantity, but with different attribute such as year of production, and such price to be offered to Ideality Group shall become a pricing reference for future transactions with independent third parties. In any case, prices offered under to Ideality Group under the Transactions shall be no less favourable to the Company than that offered to independent third parties.

<b>LETTER FROM THE BOARD</b>
------------------------------

**Revised Annual Cap and Proposed Annual Caps**

Set out below are (i) the existing annual cap for the period from 16 April 2014 to 31 March 2015; (ii) the historical transaction amount for the period from 16 April 2014 to 30 September 2014; (iii) the Revised Annual Cap for the period from 16 April 2014 to 31 March 2015; and (iv) the Proposed Annual Caps for the two financial years ending 31 March 2017, in respect of the Transactions:

	Existing annual cap for the period from 16 April 2014 to 31 March 2015 <i>HK\$'000</i>	Revised Annual Cap for the period from 16 April 2014 to 31 March 2015 <i>HK\$'000</i>	Proposed Annual Caps for the financial year ending 31 March	
			2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<b>Annual cap</b>	10,000	28,000	34,000	40,000
<b>Historical amount</b> <i>(Approximate)</i>	8,991	—	—	—
	<i>(For the period from 16 April 2014 to 30 September 2014)</i>			

The Revised Annual Cap and the Proposed Annual Caps are determined with reference to (i) the historical amount of the Transactions for the period from 16 April 2014 to 30 September 2014; and (ii) the estimated growth of the Transactions for the two financial years ending 31 March 2017 having taken into account the growth potential of the business of Ideality Group.

As at the Latest Practicable Date, the total transactions amount of the Transactions has not exceeded the existing annual cap of HK\$10 million for the period from 16 April 2014 to 31 March 2015. The Group's accounting department has been monitoring the transaction amount under the Transactions closely to ensure compliance. In this regard, the Company does not expect, the existing annual cap will be exceeded before Shareholder's approval on the Revised Annual Cap and the Proposed Annual Caps is sought at the EGM.

**INFORMATION ON IDEALITY GROUP**

Ideality Group is a company established in the PRC with limited liability. It possesses a direct selling operating permit issued by the Ministry of Commerce of the PRC and is principally engaged in direct selling business in the PRC.



## LETTER FROM THE BOARD

### REASONS FOR THE ENTERING INTO OF THE SUPPLEMENTAL SALES AGREEMENT

The Company is an investment holding company and its subsidiaries are principally engaged in the distribution of tea and other food products and in the manufacture and distribution of pharmaceutical products. Yunnan Longrun Tea is principally engaged in trading of tea products.

The Sales Agreement was entered into between Yunnan Longrun Tea, as the seller, and Ideality Group, as the buyer, in relation to the sales of the Tea Products for a term from 16 April 2014 to 31 March 2015, and the Transactions contemplated under the Sales Agreement form an integral part of the ordinary and usual course of business of the Group and has been conducted on normal commercial terms and on an arm's length basis.

In September 2014, the Directors noted that the demand of the Tea Products from Ideality Group might be higher than prior estimation given the transaction amount under the Transactions up to 31 August 2014 reached approximately RMB5.63 million (equivalent to HK\$7.12 million), which represents approximately 71.2% of the existing annual cap. Accordingly, the Company initiated negotiation with Ideality Group to a possible revision of the maximum aggregate transaction amount of the Transactions under the Sales Agreement.

Having considered that the existing annual cap for the period from 16 April 2014 to 31 March 2015 in respect of the Transactions contemplated under the Sales Agreement may not be sufficient for the Group's future requirements, on 30 October 2014, Yunnan Longrun Tea and Ideality Group entered into the Supplemental Sales Agreement to (i) revise the existing annual cap for the period from 16 April 2014 to 31 March 2015 to the Revised Annual Cap; and (ii) set out the Proposed Annual Caps for the two financial years ending 31 March 2017.

Having considered that the growth potential of the business of Ideality Group based on (1) the historical transaction amount under the Transaction is much greater than the prior estimation; and (2) the prospect of the directly selling industry in the PRC, the Company decided to enter into the Supplemental Sales Agreement. Pursuant to the Supplemental Sales Agreement, the Revised Annual Cap is set at about 3 times the historical transaction amount of the Transactions for the period from 16 April 2014 to 30 September 2014, and the Proposed Annual Caps is set with a growth rate of 20% year-on-year to capture the growth potential of the business of Ideality Group and the direct selling market in the PRC as a whole.

The terms and conditions of the Supplemental Sales Agreement were determined after arm's length negotiations between the parties thereto, and the Transactions have been and will be carried out on terms no less favourable to the Company than terms available to independent third parties.

According to the State Administration for Industry & Commerce of the PRC, the total sales of direct selling industry in 2013 in the PRC was approximately RMB90.6 billion (HK\$116.0 billion), and is expected to grow significantly in the future. The entering into of the Sales Agreement (as supplemented by the Supplemental Sales Agreement) enables the Group to access to the direct selling distribution network of Ideality Group and to generate additional revenue stream for the Group. Moreover, the terms and conditions of the Supplemental Sales Agreement were determined after arm's length negotiations between the parties thereto, the

## **LETTER FROM THE BOARD**

Directors (including the independent non-executive Directors whose recommendation is contained in the “Letter from the Independent Board Committee” on page 10 of this circular) consider that the terms of the Supplemental Sales Agreement (including the Revised Annual Cap and the Proposed Annual Caps) are fair and reasonable and that the entering into of the Supplemental Sales Agreement is in the interests of the Company and the Shareholders as a whole.

Save for Dr. Chiu and Mr. Jiao, in view of their interests in the Transactions by virtue of being shareholders of Ideality Group and Dr. Lu Pingguo, who is the brother-in-law of Dr. Chiu and Mr. Jiao (all of them have abstained from voting on the Board resolutions regarding the Supplemental Sales Agreement and the transactions contemplated thereunder), none of the Directors have a material interest in the Supplemental Sales Agreement and the transactions contemplated thereunder.

### **IMPLICATIONS UNDER THE LISTING RULES**

Yunnan Longrun Tea is an indirect wholly-owned subsidiary of the Company. As at the Latest Practicable Date, the Company is owned as to 54.30% by Dr. Chiu, an executive Director and the controlling Shareholder. Ideality Group is effectively owned as to 85.5% by Dr. Chiu and as to 14.5% by Mr. Jiao, an executive Director. Therefore, Ideality Group is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Transactions constitute continuing connected transactions for the Company.

As one or more of the applicable percentage ratios (as defined under the Listing Rules and other than the profits ratio) in respect of the Revised Annual Cap and each of the Proposed Annual Caps are more than 5% and are more than HK\$10 million, the Supplemental Sales Agreement and the Transactions contemplated thereunder will be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Directors will convene the EGM to seek the approval of the Independent Shareholders on, among others, the Supplemental Sales Agreement, the Revised Annual Cap and the Proposed Annual Caps. Given Dr. Chiu and Mr. Jiao have material interests in the Supplemental Sales Agreement, Dr. Chiu, Mr. Jiao, and their respective associates will be required to abstain from voting in relation to the resolution to approve the Supplemental Sales Agreement, the Revised Annual Cap and the Proposed Annual Caps at the EGM.

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

### **INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising Mr. Lam Siu Hung, Mr. Guo Guoqing, Mr. Kwok Hok Lun and Dr. Liu Zhonghua, being all of the independent non-executive Directors, has been established to advise the Independent Shareholders on the fairness and reasonableness of the terms of the Supplemental Sales Agreement including the Revised Annual Cap and the

## LETTER FROM THE BOARD

Proposed Annual Caps. Goldin Financial has been appointed as the independent financial adviser to the Company to provide the Independent Board Committee and the Independent Shareholders with independent advice in this regard.

### GENERAL

Notice convening the EGM to be held at 11:00 a.m. on 16 December 2014 at Unit 2201, 22/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong is set out on pages 26 and 27 in this circular. Resolution will be proposed to consider at the EGM and if thought fit, approve the Revised Annual Cap and the Proposed Annual Caps.

Form of proxy for use at the EGM is enclosed with this circular. If you are unable to attend the EGM, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

### RECOMMENDATION

Taking into account the reasons set out above, the Directors (including the independent non-executive Directors) consider that the Supplemental Sales Agreement are entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of which together with the Revised Annual Cap and the Proposed Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole, and therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Supplemental Sales Agreement, the Revised Annual Cap and the Proposed Annual Caps.

### ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee set out on page 10 of this circular, and the letter from Goldin Financial to the Independent Board Committee and Independent Shareholders set out on pages 11 to 20 and the information set out in the appendix to this circular.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)**

28 November 2014

*To the Independent Shareholders*

Dear Sir or Madam,

**REVISED ANNUAL CAP AND PROPOSED ANNUAL CAPS FOR  
CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company to the Shareholders dated 28 November 2014 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall bear the same meanings when used herein unless the context requires otherwise.

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders on whether the terms of the Supplemental Sales Agreement, including the Revised Annual Cap and the Proposed Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Supplemental Sales Agreement is in the interests of the Company and the Shareholders as a whole. Goldin Financial has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

Your attention is drawn to the letter from the Board and the letter from Goldin Financial containing its advice to us and the Independent Shareholders as set out in this circular respective.

Having considered, among other things, the factors and reasons considered by, and the opinion of Goldin Financial, we are of the opinion that the terms of the Supplemental Sales Agreement, including the Revised Annual Cap and Proposed Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Supplemental Sales Agreement is in the interest of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM.

Yours faithfully

**Mr. Lam Siu Hung**

**Mr. Guo Guoqing**

**Mr. Kwok Hok Lun**

**Dr. Liu Zhonghua**

*Independent Board Committee*

## LETTER FROM GOLDIN FINANCIAL

*Set out below is the full text of a letter of advice from Goldin Financial to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of incorporation in this circular in respect of the continuing connected transactions contemplated under the Supplemental Sales Agreement and the Revised Annual Cap and the Proposed Annual Caps.*



**Goldin Financial Limited**  
23/F  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

28 November 2014

*To the Independent Board Committee and  
the Independent Shareholders of  
Longrun Tea Group Company Limited*

Dear Sirs,

### **REVISED ANNUAL CAP AND PROPOSED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the continuing connected transactions contemplated under the Supplemental Sales Agreement that the Revised Annual Cap for the year ending 31 March 2015 and the Proposed Annual Caps for each of the two years ending 31 March 2016 and 31 March 2017, details of which are set out in the “Letter from the Board” in the circular issued by the Company to the Shareholders dated 28 November 2014 (the “Circular”), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

It was announced by the Company on 30 October 2014 (the “Announcement”) that, as the existing annual cap for the period from 16 April 2014 to 31 March 2015 (the “Existing Annual Cap”) in respect of the Transactions contemplated under the Sales Agreement may not be sufficient for the Group’s future requirements, on the even date, Yunnan Longrun Tea and Ideality Group entered into the Supplemental Sales Agreement to (i) revise the Existing Annual Cap for the period from 16 April 2014 to 31 March 2015 to the Revised Annual Cap; and (ii) set out the Proposed Annual Caps for the two financial years ending 31 March 2017.

Yunnan Longrun Tea is an indirect wholly-owned subsidiary of the Company. The Company is owned as to 54.30% by Dr. Chiu, an executive Director and the controlling Shareholder. Ideality Group is effectively owned as to 85.5% by Dr. Chiu and as to 14.5% by

## LETTER FROM GOLDIN FINANCIAL

Mr. Jiao, an executive Director. Therefore, Ideality Group is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Transactions constitute continuing connected transactions for the Company.

As one or more of the applicable percentage ratios (as defined under the Listing Rules and other than the profits ratio) in respect of the Revised Annual Cap and each of the Proposed Annual Caps are more than 5% and are more than HK\$10 million, the Supplemental Sales Agreement and the Transactions contemplated thereunder will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors will convene the EGM to seek the approval of the Independent Shareholders on the Revised Annual Cap and Proposed Annual Caps by way of poll in accordance with the requirements under the Listing Rules. As at the Latest Practicable Date, Dr. Chiu, Mr. Jiao and Dr. Lu Pingguo, being brother-in law and associate of Dr. Chiu and Mr. Jiao, are interested in 787,094,500 Shares, 1,100,000 Shares and 16,880,000 Shares respectively. Given that Dr. Chiu and Mr. Jiao have material interests in the Supplemental Sales Agreement, Dr. Chiu, Mr. Jiao and Dr. Lu Pingguo, and their respective associates, holding an aggregate of 805,074,500 Shares (as at the Latest Practicable Date representing approximately 55.53% of the issued share capital) of the Company, will be required to abstain from voting in relation to the resolutions to approve the Revised Annual Cap and the Proposed Annual Caps at the EGM.

### **INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee comprising Mr. Lam Siu Hung, Mr. Guo Guoqing, Mr. Kwok Hok Lun and Dr. Liu Zhonghua, being all the independent non-executive Directors, has been formed to advise the Independent Shareholders in relation to the Transactions contemplated under the Supplemental Sales Agreement, the Revised Annual Cap and the Proposed Annual Caps.

### **INDEPENDENT FINANCIAL ADVISER**

We, Goldin Financial Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Sales Agreement and to make a recommendation as to, among others, whether the terms of the Supplemental Sales Agreement are fair and reasonable and the entering into the Supplemental Sales Agreement is in the interests of the Company and the Shareholders as a whole, and as to voting in respect of the relevant resolutions at the EGM.

Apart from normal professional fees for our services to the Company in connection with the engagements described above, no other arrangement exists whereby we will receive any fees and/or benefits from the Group. We are not aware of any relationships or interests between us and the Company, Ideality Group or any of their respective substantial shareholders, directors or chief executive, or any of their respective associates as at the Latest Practicable Date. We are independent under Rule 13.84 of the Listing Rules to act as the independent

## LETTER FROM GOLDIN FINANCIAL

financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the continuing connected transactions contemplated under the Supplemental Sales Agreement.

### **BASIS OF OUR ADVICE**

In formulating our opinion and recommendations, we have reviewed, inter alia, the announcement of the Company dated 16 April 2014, the annual report of the Company for the year ended 31 March 2014 (the “Annual Report 2014”), the Announcement and the Supplemental Sales Agreement. We have also reviewed certain information provided by the management of the Company relating to the operations, financial condition and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the terms of the Supplemental Sales Agreement, the financials, businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as of the date hereof and we have relied upon them in formulating our opinion.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement herein or in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the terms of the Supplemental Sales Agreement and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reason to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or other prospects of the Group or its associates. Our opinion was necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, at the Latest Practicable Date.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Revised Annual Cap and the Proposed Annual Caps, and this letter, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.



## **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In assessing the Revised Annual Cap and the Proposed Annual Caps and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

### **1. Background to and reasons for the entering into of the Supplemental Sales Agreement**

The Company is an investment holding company and its subsidiaries are principally engaged in the distribution of tea and other food products and in the manufacture and distribution of pharmaceutical products. Yunnan Longrun Tea is principally engaged in trading of tea products.

Ideality Group is a company established in the PRC with limited liability. It possesses a direct selling operating permit issued by the Ministry of Commerce of China and is principally engaged in direct selling business in the PRC.

The Sales Agreement was entered into between Yunnan Longrun Tea, as the seller, and Ideality Group, as the buyer, in relation to the sales of the Tea Products for a term from 16 April 2014 to 31 March 2015, and the Transactions contemplated under the Sales Agreement form an integral part of the ordinary and usual course of business of the Group and has been conducted on normal commercial terms and on an arm's length basis.

In September 2014, the Directors noted that the demand of the Tea Products from Ideality Group might be higher than prior estimation given the transaction amount under the Transactions up to 31 August 2014 reached approximately RMB5.63 million (equivalent to HK\$7.12 million), which represents approximately 71.2% of the Existing Annual Cap, the Company initiated negotiation with Ideality Group to a possible revision of the maximum aggregate transaction amount of the Transactions under the Sales Agreement.

Having considered that the Existing Annual Cap for the period from 16 April 2014 to 31 March 2015 in respect of the Transactions contemplated under the Sales Agreement may not be sufficient for the Group's future requirements, on 30 October 2014, Yunnan Longrun Tea and Ideality Group entered into the Supplemental Sales Agreement to (i) revise the Existing Annual Cap for the period from 16 April 2014 to 31 March 2015 to the Revised Annual Cap; and (ii) set out the Proposed Annual Caps for the two financial years ending 31 March 2017.

As stated in the Annual Report 2014, other than expanding the number of franchise shops, the Company intends to explore new sales channels or platform to reach different segments of customers and to promote brand awareness, which will benefit the Group in both medium and long term. As such, we are of the view that it is in the interests of the Company and the Shareholders as a whole to carry on the Transactions with Ideality Group to secure the sales of Tea Products through the direct selling channels of Ideality Group, which is important to the Group's ongoing tea business and positive to the Group's financial performance.



## LETTER FROM GOLDIN FINANCIAL

In light of the foregoing, we are of the opinion that the Transactions contemplated under the Supplemental Sales Agreement have been and will be carried out in the ordinary and usual course of business of the Group and are in the interests of the Company and Shareholders as a whole.

### **2. Principal terms of the Supplemental Supply Agreement**

The price and specifications of the Tea Products under the Transactions shall be set out in separate purchase order in each of the Transactions. There are no prevailing market prices for the Tea Products that can be obtained from either a recognised exchange or independent organisation. The sales of Tea Products are based on a fix unit price without pre-determined formulas. The price of each of the Tea Products for each purchase order under the Transactions shall be determined with reference to, including but not limited to, the quality (grading and year of production) and the quantity of the Tea Products for the respective purchase order.

Tea Products can be classified to have different grading according to the quality, origin of raw materials used and the year of production. In general, Tea Products made from good quality raw tea leaves and manufactured years ago are consider of a higher grading, which are sold at a higher price. We have researched on tea market in the PRC and noted that this is a normal market practice in the PRC tea market.

The price and the terms of the purchase order shall be agreed after arm's length negotiation between the parties based on normal commercial terms, and in any event shall be no less favourable to the Company than that offered to independent third parties. In order to ensure that the prices charged under the Transactions are no less favourable to the Company than that offered to independent third parties, the Company shall before entering into any purchase order for the Transactions compare the price to be charged for the relevant Tea Products, with the prices charged under at least two comparable transactions offered to independent third parties. In the event that no such minimum number of comparable transactions with independent third parties are available, the Company shall make reference to prices charged under transactions with independent third parties for tea products and/or tea related products of similar quality and quantity, but with different attribute such as year of production, and such price to be offered to Ideality Group shall become a pricing reference for future transactions with independent third parties. In any case, prices offered to Ideality Group under the Transactions shall be no less favourable to the Company than that offered to independent third parties. Given that the prices offered to Ideality Group under the Transactions shall in any case be no less favourable to the Group than that offered to independent third parties, we consider that the pricing mechanism is fair and reasonable.

We have obtained all the historical transaction records (i.e. invoices with products identities, transactions quantities, and prices stated clearly) of the Transactions under the Sales Agreement for the period from 16 April 2014 to 30 September 2014, and compared alongside the records (i.e. invoices with products identities, transactions quantities, and prices stated clearly) of transactions of tea products and/or tea related products of similar quality and quantity between the Company and independent third parties. Based on our

<b>LETTER FROM GOLDIN FINANCIAL</b>
-------------------------------------

review, we noted that the prices charged under the Transactions are no less favourable to the Company, i.e. not lower than that offered to independent third parties for the sales of tea products and/or tea related products of similar quality and quantity. We also noted that the credit terms applied under the Transactions are no less favourable to the Company than that under transactions with independent third parties. We have also compared sample purchase orders with detailed terms and noted that there is no material difference in other terms (other than price) between that offered to Ideality Group and independent third parties.

In light of the foregoing, we are of the view that the terms of the Transactions contemplated under the Supplemental Sales Agreement are normal commercial terms, and fair and reasonable so far as the Independent Shareholders are concerned.

**REVISED ANNUAL CAP AND PROPOSED ANNUAL CAPS**

Set below are (i) the Existing Annual Cap for the period from 16 April 2014 to 31 March 2015; (ii) the historical transaction amount for the period from 16 April 2014 to 30 September 2014; (iii) the Revised Annual Cap for the period from 16 April 2014 to 31 March 2015; and (iv) the Proposed Annual Caps for the two financial years ending 31 March 2017, in respect of the Transactions:

	<b>Existing Annual Cap For the period from 16 April 2014 to 31 March 2015 HK\$'000</b>	<b>Revised Annual Cap For the period from 16 April 2014 to 31 March 2015 HK\$'000</b>	<b>Proposed Annual Caps For the financial year ending 31 March</b>	
			<b>2016 HK\$'000</b>	<b>2017 HK\$'000</b>
<b>Annual cap</b>	10,000	28,000	34,000	40,000
<b>Historical amount (Approximate)</b>	8,991 <i>(For the period from 16 April 2014 30 September 2014)</i>	—	—	—

As at the Latest Practicable Date, the total transactions amount of the Transactions has not exceeded the Existing Annual Cap of HK\$10 million for the period from 16 April 2014 to 31 March 2015. The Group's accounting department has been monitoring the transaction amount under the Transaction closely to ensure compliance. In this regard, the Company does not expect, the Existing Annual Cap will be exceeded before Shareholder's approval on the Revised Annual Cap and the Proposed Annual Caps is sought at the EGM.

## LETTER FROM GOLDIN FINANCIAL

The Revised Annual Cap and the Proposed Annual Caps are determined with reference to (i) the historical amount of the Transactions for the period from 16 April 2014 to 30 September 2014; and (ii) the estimated growth of the Transactions for the two financial years ending 31 March 2017 having taken into account the growth potential of the business of Ideality Group.

As shown in the table above, having reviewed the historical amount of the Transactions for the period from 16 April 2014 to 30 September 2014, the transaction amount for the five months ended 30 September 2014 reached approximately RMB7.14 million (equivalent to approximately HK\$8.99 million) which represents approximately 89.91% of the Existing Annual Cap for the period from 16 April 2014 to 31 March 2015. It is therefore considered that the Existing Annual Cap may not be sufficient for future requirements under the Sales Agreement. Given that the historical transaction amount of the Transactions for just about five months already represents close to 90% of the Existing Annual Cap, we consider that it is justifiable to set the Revised Annual Cap at HK\$28 million.

With respect to the Proposed Annual Caps, as shown in the table above, the amounts are HK\$34 million and HK\$40 million for the financial year ending 31 March 2016 and 2017 respectively. It is noted that the Proposed Annual Caps for the two years ending 31 March 2016 and 2017 represent a growth rate of 21.43% and 17.65% respectively over the respective annual cap for the prior financial year.

In assessing the reasonableness of the Proposed Annual Caps, we have conducted research on information from the public domain regarding the economic outlook of the PRC, the trend of the RMB appreciation and prospect of the direct selling sector in the PRC, and noted the following:

### **A. Economic outlook of the PRC**

According to the National Bureau of Statistics of China (the “Statistics Bureau”), based on the preliminary accounting results, China’s GDP for the first three quarters of 2014 was RMB41.99 trillion, up by 7.4% year-on-year on the basis of comparable prices. On the basis of the World Economic Outlook published by the International Monetary Fund (updated in October 2014), GDP growth in the PRC in 2014 is projected to be 7.4%, down from 7.7% in both 2012 and 2013, and is projected to settle on 7.1% in 2015. Such projections are higher than the projected growth of GDP in advanced economies (including the United States and Euro area) of 1.8% in 2014 and 2.3% in 2015, as well as the projected growth of GDP in emerging market and developing economies (including Russia, India and ASEAN) of 4.4% in 2014 and 5.0% in 2015.

Along with the latest statistical data (the “Data”) released by the Statistics Bureau on 21 October 2014, the total retail sales of consumer goods reached RMB18,915.1 billion, representing a nominal annual growth rate of 12.0% (or a real annual growth rate of 10.8% after deducting price factors) in the first three quarters of 2014. On the other hand, based on the Data, in the first three quarters of 2014, the per capita disposable income of urban households was RMB22,044, representing a nominal growth of 9.3%, or a real growth of 6.9% after deducting price factors.

**B. Appreciation of RMB**

It is noted that potential fluctuation in the exchange rate between RMB and HK\$ has been considered in determining the Proposed Annual Caps. The value of RMB against HK\$ has been increasing in recent years, with compound annual growth rate (CAGR) from 2010 to 2013 being 2.98%. Together with the positive economic outlook of the PRC, as analysed above, it is expected that the value of RMB is on an upward trend overall. Hence, it is justifiable to factor in a buffer for the potential appreciation of RMB against HK\$ in determining the Proposed Annual Caps.

**C. The direct selling sector in the PRC**

The Ideality Group possesses a direct selling operating permit issued by the Ministry of Commerce of China and is principally engaged in direct selling business in the PRC. Under 直銷管理條例 (the Regulation on Direct Selling Administration), any company that is established within the territory of PRC may apply for becoming a direct selling company that sells the products produced by itself or the products produced by its parent company or holding company by way of direct selling. A direct selling company may obtain trading right and distribution right according to law. If an approval is granted, the competent department of commerce of the State Council shall issue the direct selling license. At the Latest Practicable Date, there are currently only 46 registered direct selling companies, including Ideality Group, in the PRC.

According to the global statistics report regarding the sales and sellers' record in the worldwide direct selling market in 2013 (the "Sales & Sellers' Report 2013") published by the World Federation of Direct Selling Associations ("WFDSA", [www.wfdsa.org](http://www.wfdsa.org)) on 28 July 2014, sales recorded in the PRC in 2013 were US\$27.3 billion. It is noted that the top five countries accounted for 60% of direct selling's global sales, including the PRC which ranked the second highest, in 2013. The top five countries in 2013 in descending order were the United States (US\$32.7 billion, 18%), China (US\$27.3 billion, 15%), Japan (US\$17.9 billion, 10%), Korea (US\$14.5 billion, 8%) and Brazil (US\$14.2 billion, 8%). Moreover, in terms of growth, the Sales & Sellers' Report 2013 also shows that the PRC enjoys a notable growth rate of 41% from 2012 and a CAGR of 23.3% from 2010 to 2013.

Based on the 2013年直銷行業發展報告 (the "Direct Selling Industry Report 2013") published by the Ministry of Commerce of the PRC, the number of enterprises participated in direct selling achieved a significant growth of 28.13% in 2013. Sales promoter's sales amount per capita reached RMB10,491, which represents a growth rate of 23.24% from 2012; meanwhile, sales promoter's per capita income was RMB1,562, which represents a growth rate of 8.67% from 2012.

As such, we are positive of the prospect of the direct selling sector in the PRC, alongside the healthy domestic economic growth, which could fuel the growth potential of direct selling companies in the PRC, including Ideality Group, the entering into of the Sales Agreement (as supplemented by the Supplemental Sales Agreement) enables the Group to access to the direct selling distribution network of Ideality Group and to generate additional revenue stream to the Group.

## LETTER FROM GOLDIN FINANCIAL

Taking into account that (i) the growth potential of the business of Ideality Group as reflected by that the historical transaction amount under the Transaction is much greater than the prior estimation, with the historical transaction amount of the Transactions for just about five months already represents close to 90% of the Existing Annual Cap for the period from 16 April 2014 to 31 March 2015; and (ii) the positive outlook of the PRC economy and the direct selling sector which provide for the growth potential of direct selling companies in the PRC, including Ideality Group, we are of the view that the Revised Annual Cap and the Proposed Annual Caps are fair and reasonable so far as the Independent shareholders are concerned.

However, the Shareholders should note that as the Revised Annual Cap and the Proposed Annual Caps are determined based on various factors relating to future events and assumptions which may or may not remain valid for the entire period up to 31 March 2017, they do not represent forecasts of revenue to be generated from the operations of the Group. Consequently, we express no opinion as to how closely the actual amounts to be received by the Group will correspond with the Revised Annual Cap and the Proposed Annual Caps.

### **ANNUAL REVIEW OF THE TRANSACTIONS**

The Revised Annual Cap and the Proposed Annual Caps will be subject to the annual review by the independent non-executive Directors, details of which must be included in the Company's subsequent published annual report and accounts. In addition, pursuant to the Listing Rules, the auditors of the Company must provide a letter to the Board confirming, among others, that the transactions contemplated under the Supplemental Sales Agreement is conducted in accordance with their terms and that the Revised Annual Cap and Proposed Annual Caps not being exceeded. Moreover, pursuant to the Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of such transactions or the Revised Annual Cap and Proposed Annual Caps not being exceeded. In view of the above, we are of the view that there are appropriate measures in place to govern the conduct of the transactions contemplated under the Supplemental Sales Agreement and safeguard the interests of the Independent Shareholders.

## LETTER FROM GOLDIN FINANCIAL

### RECOMMENDATIONS

Taking into consideration of the above mentioned principal factors and reasons, we consider that the entering into of the Supplemental Sales Agreement is in the ordinary and usual course of business of the Group and that the terms of the Supplemental Sales Agreement, including the Revised Annual Cap and the Proposed Annual Caps, are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the resolution to be proposed at the EGM to approve the Revised Annual Cap and the Proposed Annual Caps.

Yours faithfully,  
For and on behalf of  
**Goldin Financial Limited**  
**Billy Tang**  
*Director*

*Note:* Mr. Billy Tang is a licensed person registered with the Securities and Futures Commission and a responsible officer of Goldin Financial Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 10 years of experience in the corporate finance industry.

**RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or this circular misleading.

**DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS**

As at the Latest Practicable Date, the interests of the Directors in the Shares which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

**Long position in Shares**

<b>Name of Director</b>	<b>Nature of interests</b>	<b>Number of Shares held</b>	<b>Percentage<sup>+</sup> of the Company's issued share capital</b>
Dr. Chiu Ka Leung	Beneficial owner	787,094,500	54.30%
Ms. Yeh Shu Ping	Beneficial owner	43,895,500	3.03%
Dr. Lu Pingguo	Beneficial owner	16,880,000	1.16%
Mr. Jiao Shaoliang	Beneficial owner	1,100,000	0.07%

+ *The percentage represents the number of Shares interested divided by the number of the Company's issued Shares as at the Latest Practicable Date.*

In addition to the above, as at the Latest Practicable Date, Dr. Chiu held one ordinary share in each of Long Far Herbal Medicine Manufacturing (Hong Kong) Limited, International Health Association (HK) Limited, Long Far Health Products Limited and Hong Kong Health Journal Limited (in all cases in trust for Long Far Pharmaceutical (BVI) Limited and all of which are indirect wholly-owned subsidiaries of the Company) in a non-beneficial capacity, solely for the purpose of complying with the then minimum company membership requirement.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had registered an interest or a short position in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests



and short positions which he/she was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, so far as was known to the Directors, none of the Directors was also directors or employees of a company which has an interest or short position in the Shares and underlying Shares, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

### DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

### COMPETING INTERESTS

As at the Latest Practicable Date, the following Director was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, details of which are set out below:

Dr. Chiu has a controlling interest in 雲南盤龍雲海藥業有限公司 (Yunnan Panlong Yunhai Pharmaceutical Company Limited) ("YPYP") which is principally engaged in the development, manufacture and distribution of Chinese pharmaceutical products in the PRC.

One of the products of YPYP named Health & Beauty InnerPure Capsules (排毒養顏膠囊) was developed by YPYP which obtained approvals from the relevant authorities in the PRC for its manufacture in 1995. Health & Beauty InnerPure Capsules (排毒養顏膠囊) is targeted to improve conditions such as constipation, hypertension, insomnia, abdominal swelling, overweight, skin pigmentation as well as to tonify the functions of the spleen and kidney.

Although containing a different medicinal formula to that of the Group's Beauty and Healthy (排毒美顏寶), the symptoms which are targeted by both Beauty and Healthy (排毒美顏寶) and Health & Beauty InnerPure Capsules (排毒養顏膠囊), to improve conditions such as constipation, abdominal swelling, overweight, skin pigmentation, as well as to tonify the functions of the spleen and kidney are similar. There is a possibility that Health & Beauty InnerPure Capsules (排毒養顏膠囊) can be used as a substitute for Beauty and Healthy (排毒美顏寶) for such conditions.

Since YPYP had only distributed Health & Beauty InnerPure Capsules (排毒養顏膠囊) in the PRC since its launching in 1995 while the Group distributed Beauty and Healthy (排毒美顏寶) under the Group's brand name of 「龍發製藥」 (Long Far) in Hong Kong, Southeast Asia and other Asian regions outside Mainland China, the Directors consider that the operations of YPYP will not affect the Group's business. Save as disclosed herein, the Directors confirm that none of the existing products of YPYP is or may be in direct or indirect competition with the Group's products.



Save as disclosed above, the Directors confirm that none of them and their respective associates have any interests in a business apart from the Group's business which directly competes with and will have material adverse impact on the Group.

#### **DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS**

On 12 May 2009, Yunnan Longrun Tea and 雲南龍潤茶業集團有限公司 (Yunnan Longrun Tea Group Limited) ("Longrun Tea Group") entered into an exclusive purchase agreement for a term of 10 years from 12 May 2009, pursuant to which Yunnan Longrun Tea was granted an exclusive right to purchase tea and tea related products from Longrun Tea Group and to use the trademarks (including both registered and unregistered trademarks) and other intellectual properties owned by Longrun Tea Group and its subsidiaries. Longrun Tea Group is owned as to 90% and 10% by Dr. Chiu and Mr. Jiao respectively.

Save as disclosed above, none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date and significant in relation to the businesses of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 March 2014, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by, or leased to the Company or any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

#### **EXPERT AND CONSENT**

The following is the qualification of the expert, who has given opinions contained in and referred to in this circular:

<b>Name</b>	<b>Qualification</b>
Goldin Financial	A corporation licensed to carry out type 6 (advising on corporate finance) regulated activities under the SFO

As at the Latest Practicable Date, Goldin Financial had no shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Goldin Financial has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinions in the form and context in which they are included.

Goldin Financial has no direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 March 2014, the date to which the latest published audited consolidated financial statements of the Group were made up.

The letter from Goldin Financial is given as of the date of this circular for incorporation herein.

#### **MATERIAL ADVERSE CHANGE**

On 6 November 2014, the Company published a profit warning announcement informing the Shareholders that its unaudited results for the six months ended 30 September 2014 is expected to be a loss as compared to a profit for six months ended 30 September 2013. The loss for the six months ended 30 September 2014 was mainly attributable to the absence of a gain on disposal of property in the corresponding period for 2013.

On 19 November 2014, the Company published its 2014 interim report of the Group for the six months ended 30 September 2014, an unaudited consolidated loss attributable to the owners of the Company was approximately HK\$19,098,000 (six months ended 30 September 2013: profit of HK\$20,336,000).

As at the Latest Practicable Date, the Directors confirm that, save as disclosed above there was no material adverse change in the financial or trading position of the Group since 31 March 2014, the date to which the latest published audited consolidated financial statements of the Group were made up.

#### **MISCELLANEOUS**

- (a) The registered office of the Company is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The head office and principal place of business of the Company in Hong Kong is Room 3007A–B, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.
- (c) Tricor Tengis Limited, the Hong Kong branch share registrar and transfer office of the Company, is located at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours (except Saturdays and public holidays) at Unit 2201, 22/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong for a period of 14 days from the date of this circular:

- (a) this circular;
- (b) the Sales Agreement and the Supplemental Sales Agreement;
- (c) the letter from Goldin Financial as set out in this circular;
- (d) the letter from the Independent Board Committee as set out in this circular; and
- (e) the written consent of Goldin Financial.

NOTICE OF EGM



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)**

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting (the “EGM”) of Longrun Tea Group Company Limited (the “Company”) will be held at 11:00 a.m. on 16 December 2014 at Unit 2201, 22/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong to consider and, if thought fit, pass with or without amendments, the following ordinary resolution:

**“THAT:**

- (a) the supplemental sales agreement (the “**Supplemental Sales Agreement**”) dated 30 October 2014 entered into among 雲南龍潤茶科技有限公司 (Yunnan Longrun Tea Technology Company Limited\*, “**Yunnan Longrun Tea**”) and 理想科技集團有限公司 (Ideality Technology Group Company Limited\*, “**Ideality Group**”) in relation to, among other matters, the sales of tea and tea related products by Yunnan Longrun Tea to the Ideality Group (a copy of which is marked “A” and produced to the EGM and signed by the chairman of the EGM for identification purpose) and the transactions (the “**Transactions**”) contemplated thereunder be and are hereby ratified, confirmed and approved;
- (b) the revised annual cap for the period from 16 April 2014 to 31 March 2015 of HK\$28 million and the proposed annual caps for the two financial years ending 31 March 2016 and 31 March 2017 of HK\$34 million and HK\$40 million, respectively, in relation to the Transactions contemplated under the Supplemental Sales Agreement be and are hereby confirmed and approved; and
- (c) the directors of the Company be and are hereby authorised to execute such other documents, do all other acts and things and take such action as they may consider necessary, desirable or expedient to implement and/or give effect to or otherwise in connection with Supplemental Sales Agreement and any or all the matters contemplated in the Supplemental Sales Agreement.”

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

Hong Kong, 28 November 2014

\* *For identification purposes only*

## NOTICE OF EGM

*Notes:*

1. Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote instead of him/her/it. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her/it to attend and vote on his/her/its behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. To be effective, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the Branch Share Registrar of the Company in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.