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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)

DISCLOSEABLE AND CONNECTED TRANSACTION – THE PROPOSED DISPOSAL OF SALE INTEREST OF A WHOLLY-OWNED SUBSIDIARY

THE DISPOSAL

The Board announces that on 5 October 2015, the Seller, being an indirect wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Seller has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Interest at a total consideration of HK\$52.00 million.

Upon Completion, the Target Company will cease to be a subsidiary of the Company.

LISTING RULES IMPLICATIONS

As all the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the entering into of the Sale and Purchase Agreement exceed 5% but are less than 25%, the entering into of the Sale and Purchase Agreement constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules which is subject to reporting and announcement requirements under the Listing Rules.

The Purchaser is beneficially owned as to 90% by Dr. Chiu and as to 10% by Mr. Jiao. As Dr. Chiu, being the controlling Shareholder, an executive Director and the chairman of the Company, and Mr. Jiao, being an executive Director, are both connected persons of the Company, the Purchaser, being an associate of each of Dr. Chiu and Mr. Jiao, is therefore an associate of the connected persons of the Company within the meaning of the Listing Rules. Accordingly, the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules.

As such, the entering into of the Sale and Purchase Agreement also constitutes a connected transaction for the Company, which is subject to, among other things, the Independent Shareholders' approval requirement 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 in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder. Goldin Financial has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder.

An EGM will be convened as soon as practicable to consider, and if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. Given each of Dr. Chiu and Mr. Jiao has material interest in the Sale and Purchase Agreement, Dr. Chiu and Mr. Jiao and their respective associates will be required to abstain from voting in relation to the resolutions to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

A circular containing, among other things, (i) details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM is expected to be despatched to the Shareholders on or before 27 October 2015.

INTRODUCTION

The Board announces that on 5 October 2015, the Seller, being an indirect wholly owned subsidiary of the Company, entered into the Sale and Purchase Agreement with the Purchaser, pursuant to which the Seller has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Interest at a total consideration of HK\$52.00 million.

THE SALE AND PURCHASE AGREEMENT

Set out below are the principal terms of the Sale and Purchase Agreement.

Date:	5 October 2015
Seller:	Winlead Investment Limited, an indirect wholly-owned subsidiary of the Company
Purchaser:	雲南龍潤投資有限公司 (Yunnan Longrun Investment Company Limited*), which is an investment holding company

Subject matter

Pursuant to the Sale and Purchase Agreement, the Seller conditionally agreed to sell and the Purchaser conditionally agreed to purchase the Sale Interest, being the entire equity interest of the Target Company.

Consideration

The consideration for the Disposal shall be HK\$52.00 million, which shall be paid in cash within 90 days after the date of the Completion (or such other later date as the Seller may agree in writing). The Purchaser shall be responsible for obtaining the necessary consents, approvals and permits including but not limited to those from the State Administration of Foreign Exchange (the “**Settlement Approval**”).

The consideration for the Disposal was determined and agreed between the parties after arm’s length negotiations based on normal commercial terms, having regard to (i) the audited net asset value of the Target Company prepared in accordance with the PRC GAAP as at 31 December 2014 of approximately RMB41.05 million (equivalent to approximately HK\$49.67 million); and (ii) the future prospect of the Target Company.

Conditions precedent

Completion is conditional upon the satisfaction of the following conditions precedent:

- (a) the Company having obtained the clearance from the Stock Exchange for the release of the circular in respect of the transactions contemplated under the Sale and Purchase Agreement to its Shareholders;
- (b) the Independent Shareholders having approved the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM by resolution in accordance with the Listing Rules and any applicable law; and
- (c) the Company and/or the Seller and/or the Target Company having obtained the necessary consents, approvals and permits (if applicable) in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder from relevant organizations, government departments and regulatory authorities, including but not limited to the Stock Exchange, and for the sake of clarity, excluding the Settlement Approval.

None of the above conditions precedent can be waived. In the event that any of the above conditions precedent is not fulfilled on or before 31 March 2016, the Seller and the Purchaser agreed that the Sale and Purchase Agreement will lapse, and the Seller and the Purchaser shall not claim against each other, save for the liabilities of any antecedent breaches thereof.

Completion

Completion shall take place upon completion of the industrial and commercial registration of the transfer in respect of the Sale Interest in accordance with the terms of the Sale and Purchase Agreement. Both parties agreed that no application in respect of the aforesaid registration will be made prior to the fulfillment of the conditions precedent (a) and (b) as set out in the section headed “Condition precedent” above.

FINANCIAL EFFECT OF THE ENTERING INTO OF THE SALE AND PURCHASE AGREEMENT

The unaudited gain before tax from the Disposal is estimated to be approximately HK\$1.33 million, representing the difference between the consideration for the Disposal of HK\$52.00 million and the sum of (i) the audited net assets of the Target Company prepared in accordance with the PRC GAAP of approximately RMB41.05 million (equivalent to approximately HK\$49.67 million) as at 31 December 2014; and (ii) estimated transaction costs of approximately HK\$1.00 million. The net proceeds from the Disposal after expenses is expected to be approximately HK\$51.00 million, which will be used by the Group for general working capital and for future investments. Upon Completion, the Target Company will cease to be a subsidiary of the Company.

REASONS FOR THE ENTERING INTO OF THE SALE AND PURCHASE 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.

The Target Company has been manufacturing and distributing pharmaceutical products in the PRC. In view of (i) the weakened performance of the Target Company in recent years; and (ii) additional capital requirement for the upgrading of the existing production facilities of the Target Company for the renewal of production license, the Board considers that the Disposal represents a good opportunity for the Group to reduce its overall capital commitment and realise its investment in the Target Company for better allocation of the Group’s financial resources to increase Shareholders’ value. The Board is also of the view that the net proceeds from the Disposal would strengthen the Group’s working capital and to provide financial resources for future investments when opportunities arise.

In view of the above, the Directors (excluding the independent non-executive Directors who will give their view after receiving the advice from the Independent Financial Adviser) consider that the entering into of the Sale and Purchase Agreement is fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

INFORMATION ON THE TARGET COMPANY

The Target Company is a company established in the PRC with limited liability and is principally engaged in manufacture and distribution of pharmaceutical products in the PRC.

Financial information on the Target Company

Set out below is a summary of the audited financial information of the Target Company prepared in accordance with the PRC GAAP for the two years ended 31 December 2014:

	For the year ended 31 December 2014 <i>(approximately RMB'000)</i>	For the year ended 31 December 2013 <i>(approximately RMB'000)</i>
Net profit before tax	3,275	6,357
Net profit after tax	2,343	4,572

As at 31 December 2014, the audited net assets of the Target Company was approximately RMB41.05 million (equivalent to approximately HK\$49.67 million).

IMPLICATIONS UNDER THE LISTING RULES

As all the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the entering into of the Sale and Purchase Agreement exceed 5% but are less than 25%, the entering into of the Sale and Purchase Agreement constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules which is subject to reporting and announcement requirements under the Listing Rules.

The Purchaser is beneficially owned as to 90% by Dr. Chiu and as to 10% by Mr. Jiao. As Dr. Chiu, being the controlling Shareholder, an executive Director and the chairman of the Company, and Mr. Jiao, being an executive Director, are both connected persons of the Company, the Purchaser, being an associate of each of Dr. Chiu and Mr. Jiao, is therefore an associate of the connected persons of the Company within the meaning of the Listing Rules. Accordingly, the Purchaser is a connected person of the Company under Chapter 14A of the Listing Rules.

As such, the entering into of the Sale and Purchase Agreement also constitutes a connected transaction for the Company, which is subject to, among other things, the Independent Shareholders' approval requirement 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 in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder. Goldin Financial has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder.

An EGM will be convened as soon as practicable to consider, and if thought fit, to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. Given each of Dr. Chiu and Mr. Jiao has material interest in the Sale and Purchase Agreement, Dr. Chiu and Mr. Jiao and their respective associates will be required to abstain from voting in relation to the resolutions to approve the Sale and Purchase Agreement and the transactions contemplated thereunder at the EGM.

A circular containing, among other things, (i) details of the Sale and Purchase Agreement and the transactions contemplated thereunder; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders in relation to the Sale and Purchase Agreement and the transactions contemplated thereunder; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM is expected to be despatched to the Shareholders on or before 27 October 2015.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“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
“Completion”	completion of the Sale and Purchase Agreement
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company

“Disposal”	the disposal of the Sale Interest by the Seller to the Purchaser pursuant to the Sale and Purchase Agreement
“Dr. Chiu”	Dr. Chiu Ka Leung, the controlling Shareholder holding approximately 55.59% of the issued share capital of the Company as at the date of this announcement, an executive Director and the chairman of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among other things, the Sale and Purchase Agreement and the transactions contemplated thereunder
“Goldin Financial” or “Independent Financial Adviser”	Goldin Financial Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activities as defined under the SFO, the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the entering into of the Sale and Purchase Agreement and the transaction contemplated thereunder
“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
“Independent Shareholder(s)”	Shareholder(s) other than Dr. Chiu and Mr. Jiao and their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Jiao”	Mr. Jiao Shaoliang, an executive Director of the Company and holding approximately 0.08% of the issued share capital of the Company as at the date of this announcement
“PRC”	The People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC GAAP”	the generally accepted accounting principles adopted in the PRC

“Purchaser”	雲南龍潤投資有限公司 (Yunnan Longrun Investment Company Limited*), a company established in the PRC with limited liability
“Sale and Purchase Agreement”	the sale and purchase agreement dated 5 October 2015 entered into between the Purchaser and the Seller in respect of the Disposal
“Sale Interest”	the 100% equity interest in the Target Company owned by the Seller as at the date of this announcement
“Seller”	Winlead Investment Limited, a company incorporated in the BVI with limited liability and an indirect wholly-owned subsidiary of the Company
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the ordinary share(s) in the issued share capital of the Company of HK\$0.05 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	雲南龍發製藥有限公司 (Yunnan Long Far Pharmaceutical Company Limited*), a company established in the PRC with limited liability
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent.

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

Hong Kong, 5 October 2015

As at the date of this announcement, the executive Directors of the Company are Dr. Chiu Ka Leung, Ms. Yeh Shu Ping, Mr. Jiao Shaoliang and Dr. Lu Pingguo; and the independent non-executive Directors of the Company are Mr. Lam Siu Hung, Mr. Guo Guoqing, Mr. Kwok Hok Lun and Dr. Liu Zhonghua.

In this announcement, for illustration purpose only, amounts quoted in RMB has been converted into HK\$ at the rate of RMB1.00:HK\$1.21. Such exchange rate has been used, where applicable, for illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

* For identification purposes only