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PU'ER LANCIANG ANCIENT TEA CO., LTD.

普洱瀾滄古茶股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 6911)

(1) PROPOSED CHANGE IN USE OF PROCEEDS; (2) PROPOSED CHANGE OF AUDITORS; AND (3) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The board (the “**Board**”) of directors (the “**Directors**”) of Pu'er Lancang Ancient Tea Co. Ltd. (the “**Company**”) hereby announces that:

PROPOSED CHANGE IN USE OF PROCEEDS

References are made to the prospectus of the Company dated 14 December 2023 (the “**Prospectus**”) and the announcement of the Company dated 21 December 2023 (the “**Announcement**”) in relation to the offer price and allotment results announcement of the Global Offering. Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Prospectus.

Use of Net Proceeds

As disclosed in the Prospectus and the Announcement, the net proceeds from the listing of H Shares of the Company on the Stock Exchange on 22 December 2023 (pursuant to the offer price of HK\$10.70 per H Share after deducting the underwriting commissions and other listing related expenses payable by the Company in connection with the Global Offering) were approximately RMB141.4 million (“**Net Proceeds**”). The breakdown of the use of Net Proceeds as set out in the Prospectus and the unutilised Net Proceeds as of 30 June 2024 are summarised below:

Use of Net Proceeds	Approximate Percentage of the total Net Proceeds	Planned use of Net Proceeds as disclosed in the Prospectus (RMB million)	Remaining Net Proceeds as of 30 June 2024 (RMB million)
Building modernised logistics and warehousing centers, building new production facilities and upgrading current production facilities	35.0%	49.5	47.1
Sales channel building	27.0%	38.2	32.5
Brand building and product marketing	18.0%	25.4	13.3
Strategic investments in and acquisitions of business opportunities in the tea industry	5.0%	7.1	7.1

Use of Net Proceeds	Approximate Percentage of the total Net Proceeds	Planned use of Net Proceeds as disclosed in the Prospectus (RMB million)	Remaining Net Proceeds as of 30 June 2024 (RMB million)
Upgrading our information technology infrastructure and strengthening our research and development capabilities	5.0%	7.1	6.5
Working capital and other general corporate purposes	10.0%	14.1	0.1
Total	100%	141.4	106.6

As of 30 June 2024, being the latest practicable date for the purpose of this announcement, approximately RMB106.6 million of the Net Proceeds has not been utilised.

Proposed change in use of proceeds

The Company plans to change the use of the Net Proceeds as follows:

- Pursuant to the Prospectus, the investment in building modernised logistics and warehousing centers and new production facilities, and upgrading current production facilities (“**Project 1**”) amounts to 35% of the Net Proceeds, i.e. RMB49.5 million. As of 30 June 2024, the Company has already invested RMB2.4 million of the Net Proceeds in Project 1, leaving the remaining Net Proceeds to RMB47.1 million. The Company plans to reallocate RMB37.8 million from the Net Proceeds for Project 1 in the following manner: (a) RMB30.0 million to a new project titled “Shanquan fermentation and capacity expansion project” (the “**Shanquan Fermentation Project**”), and (b) RMB7.8 million to working capital and other general corporate purposes.
- Upon completion of the aforesaid reallocation, the remaining Net Proceeds from Project 1 amounts to RMB9.3 million, which will continue to be invested in the planned logistics and e-commerce center project in Foshan in accordance with the section headed “Future Plans and Use of Proceeds” in the Prospectus, while the original planned logistics and warehousing center project in Pu’er (the “**Pu’er Warehousing Project**”) and other projects in Project 1 will no longer be invested by the Company by use of the Net Proceeds, and shall be subsequently be invested by way of self-financing, bank loans or such other way(s) as the Company deems fit in light of the market situation and its own development status.

The breakdown of use of Net Proceeds as set out in the Prospectus and the proposed revised allocation of the remaining Net Proceeds are summarised as below:

Use of Net Proceeds	Planned use of		Proposed reallocation in the Net Proceeds	Net Proceeds after proposed reallocation		Utilised Net	Unutilised	Expected timeline for full utilisation
	Net Proceeds as disclosed in the Prospectus					Proceeds as of 30 June 2024	Net Proceeds as of 30 June 2024	
	<i>Amount of Net Proceeds (RMB million)</i>	<i>Approximate Percentage of the total Net Proceeds</i>	<i>Amount of Net Proceeds (RMB million)</i>	<i>Amount of Net Proceeds (RMB million)</i>	<i>Approximate Percentage of the total Net Proceeds</i>	<i>Amount of Net Proceeds (RMB million)</i>	<i>Amount of Net Proceeds (RMB million)</i>	<i>Year</i>
Building modernised logistics and warehousing centers, building new production facilities and upgrading current production facilities	49.5	35.0%	(37.8)	11.7	8.3%	2.4	9.3	End of 2025
Sales channel building	38.2	27.0%	–	38.2	27.0%	5.7	32.5	End of 2025
Brand building and product marketing	25.4	18.0%	–	25.4	18.0%	12.1	13.3	End of 2025
Strategic investments in and acquisitions of business opportunities in the tea industry	7.1	5.0%	–	7.1	5.0%	–	7.1	End of 2025
Upgrading our information technology infrastructure and strengthening our research and development capabilities	7.1	5.0%	–	7.1	5.0%	0.6	6.5	End of 2025
Working capital and other general corporate purposes	14.1	10.0%	7.8	21.9	15.5%	14.0	7.9	End of 2024
Investment in the Shanquan Fermentation Project	–	–	30.0	30.0	21.2%	–	30.0	End of 2024
Total	141.4	100.0%		141.4	100.0%	34.8	106.6	

Reasons for and benefits of change in use of Net Proceeds

(1) Reallocation of unutilised Net Proceeds to invest in the Shanquan Fermentation Project

(a) Basic information of the Shanquan Fermentation Project

The Shanquan Fermentation Project shall be conducted at Pingzhang Road, West Suburb Hot Spring Community, Menglang Town, Lancang Lahu Ethnic Autonomous County (“**Lancang**”), Pu’er, Yunnan Province, the PRC, which is adjacent to the Company’s production headquarters, i.e. the production base in Lancang. The project site has a total area of approximately 9,120 square metres and a total gross floor area of approximately 10,214.4 square metres. New fermented tea facilities and drying workshops will be added for the Company upon the completion of the Shanquan Fermentation Project, as well as the inclusion of a transit storage areas for the materials to be fermented and a storage areas for finished and semi-finished products.

The estimated total investment amount for the Shanquan Fermentation Project is approximately RMB41.9 million, and the Company plans to invest approximately RMB30.0 million through the Net Proceeds, and the remaining project amount will be provided by the Company through its own sources of funding. As of 30 June 2024, the Company has incurred approximately RMB10.0 million for the acquisition of land use rights for the Shanquan Fermentation Project, which is expected to be completed by the end of 2024. Upon completion and commencement of production, the Shanquan Fermentation Project will be conducive to increasing the Company’s production capacity of fermented tea, increasing the storage and turnover area, and will be able to form a more complete production layout with the Company’s production base in Lancang.

(b) Significance of the Shanquan Fermentation Project to the Company’s current stage of development

(i) Macro-environmental and industrial situation analysis

Consumption is still the focus in the post epidemic era, and the change of consumption mode puts forward more diversified requirements for enterprises

In 2024, the National Commercial Work Conference (全國商務工作會議) was held and pointed out that it would promote consumption from post epidemic recovery to continuous expansion, improve the market and circulation system, and organise various kinds of consumption promotion activities with the main line of “Year of Consumption Promotion” (消費促進年). The Board is of the view that consumption promotion is one of the important directions of macro policies at this stage, and under the influence of various factors such as online consumption, live e-commerce, and changes in the demand of young consumers in the new generation in the post epidemic era, it has put forward more diversified requirements on the supply chain capability, production capacity and product development capability of enterprises. Therefore, the Company is aware of the importance of its resilience in the supply chain and production end while firmly establishing its development strategy. The Shanquan Fermentation Project shall increase the Company’s production capacity and supply capability at the fermented tea end, and is able to provide production support for the Company’s more diversified or batch demands that may exist in the future.

Positive events in the Pu'er tea industry which help the industry to move towards a broader market development

In September 2023, the Ancient Tea Forest Cultural Landscape of Jingmai Mountain in Yunnan Province (雲南省景邁山古茶林文化景觀) (“**Jingmai Mountain**”) was successfully inscribed on the World Heritage List administered by The United Nations Educational, Scientific and Cultural Organization (UNESCO), which is the world’s first tea-themed world cultural heritage, reflecting the long history and outstanding achievements of Chinese tea culture, and is of great significance to the spread of Chinese tea culture. Meanwhile, the year of 2024 marks the 50th anniversary of the birth of Yunnan Pu'er fermented tea, which has won a number of awards, and the tea fermentation process is one of the historical and representative processes in the Yunnan tea industry. The Company has many years of experience in tea fermentation process, and has produced a variety of representative and well-known fermented tea products based on the raw materials from Jingmai Mountain. In conjunction with the successful application for the inscription of Jingmai Mountain in September 2023 and the 50th anniversary of fermented tea in 2024, the Company has set the development goal and strategy of becoming the “No. 1 brand of Pu'er fermented tea” in 2024, therefore, the Shanquan Fermentation Project is of great significance to the Company’s strategic development.

(ii) Analysis of the Company’s development goals

Enhancement of the Company’s competitive advantage

Combining the industry and market development opportunities, the Company has put forward the important layout of the Shanquan Fermentation Project earlier this year, and plans to build the Company into the “No. 1 brand of Pu'er fermented tea”. During the Company’s major branding event “The Journey Home” (“回家之旅”) in spring 2024, the Company unveiled the Shanquan Fermentation Project for the first time to its business partners and tea enthusiasts across the market. We believe that the Shanquan Fermentation Project will increase the Company’s fermented tea production capacity and supply capability, which is important for the Company’s future development and enhancement of its competitive advantage.

Improvement of the Company’s overall production layout

The tea fermentation process requires sufficient space, and the temperature and humidity during the fermentation process also have strict requirements. The Shanquan Fermentation Project site is adjacent to the Company’s core production base in Lancang (the Company’s main production base), and is able to optimise resource allocation for the Company’s production base in Lancang and facilitates the management by production staff of the Company. Concurrently, for the Company’s another production base located in Lancang, a portion of the land will be reclaimed by the local government due to planning needs for 2024 and a new land located near the Sanquan Fermentation Project site will be exchanged for the Company’s use. Accelerating the progress of the Shanquan Fermentation Project will enable the Company to adapt to the aforementioned planning adjustment, and it will have a positive impact on the refinement and overall layout optimisation of the Lancang production base.

Meeting the consumption demand of downstream customers

While the Company attaches importance to the development of offline distribution channels, online channels and key accounts are important media for the Company to conduct sales. Online sales put forward more diversified requirements on the Company's supply chain capacity, while the bulk production capacity of the Company's key account customers is also highly valued. As one of the most important sales channels of the Company in recent years, a Company's key account customer ("Customer S") has also selected the Company's Pu'er fermented tea budget products for the first time this year, and the Company believes that Customer S has a certain degree of representativeness of the end-consumption of the Company's products. Therefore, by enhancing the Company's fermented tea production capacity through the Shanquan Fermentation Project, there is an opportunity to satisfy more consumer demand for fermented tea products in the future.

- (c) Reasons for the reallocation of unutilised Net Proceeds from building modernised logistics and warehousing centers, building new production facilities and upgrading current production facilities

The Board (including the independent non-executive Directors) resolved that the reallocation of the remaining Net Proceeds for Project 1 shall not have any material adverse impact on the production and operation of the Company.

As of 30 June 2024, the Net Proceeds allocated for Project 1 were mainly utilised in the Pu'er Warehousing Project and the planned logistics and e-commerce center project in Foshan. For further details regarding the Project 1, please refer to the section headed "Future Plans and Use of Proceeds" in the Prospectus.

As confirmed by the Board, the logistics and e-commerce center project in Foshan will continue to be invested in accordance with the section headed "Future Plans and Use of Proceeds" in the prospectus and shall not be subject to any change, while the Pu'er Warehousing Project will no longer be invested through the unutilised Net Proceeds. As confirmed by the Board, the Pu'er Warehousing Project is mainly to increase the Company's warehousing area in Pu'er, whereas the Shanquan Fermentation Project can simultaneously expand the Company's fermented tea production facilities and a certain amount of warehousing area, which is a more urgent project in view of the latest market trend and the Company's development needs. Therefore, the Company will speed up the promotion of the Shanquan Fermentation Project, and will subsequently promote the Pu'er Warehousing Project by use of its own resources in accordance with the market and the development of the Company.

(2) Reallocation of Net Proceeds to working capital and other general corporate purposes

The Group has decided to re-allocate RMB7.8 million, representing approximately 5.5% of the Net Proceeds, to working capital and general corporate purposes, which will enhance the Group's financial management flexibility. As the development of the market in the post epidemic era is more diversified and uncertain, the Board is of the view that the reallocation of the unutilised Net Proceeds will help the Company to improve the efficiency of the use of funds, and apply the funds in a more balanced and flexible manner for the development and investment in various aspects of the business operations of the Company, and will be of greater significance for the Company to respond to the changes in the post epidemic era in a timely manner.

The Board confirms that there are no material changes in the nature of the business of the Group and considers that the proposed change in use of proceeds is in the interests of the Company and its shareholders as a whole and will not have any material adverse effect on the existing business and operations of the Group.

The Board will continuously assess the changing market conditions and may revise or amend such plans where necessary to cope with the changing market conditions in order to strive for better performance of the Group.

The resolution is subject to consideration and approval by the extraordinary general meeting of the Company. A circular containing, among other things, details of the resolution, together with the notice of the extraordinary general meeting, will be published in due course.

PROPOSED CHANGE OF AUDITORS

Reference is made to the announcement of the Company dated 6 June 2024 in relation to, among other things, the approval by the shareholders of the Company (the “**Shareholders**”) of the re-appointment of PricewaterhouseCoopers (“**PwC**”) as the auditors of the Company for the financial year of 2024 and the authorization of the Board to fix the auditor’s remunerations at the annual general meeting of the Company held on 6 June 2024 (the “**AGM**”).

The Board hereby announces that PwC has resigned as the auditor of the Company with effect from 17 July 2024. In the resignation letter of PwC dated 17 July 2024, PwC stated that they resigned as auditor of the Company as PwC was informed by the Company that the Board has decided to propose the appointment of another auditor taking into account the Company’s development needs as well as increasing profitability through cost reduction. The Board and the audit committee of the Company (the “**Audit Committee**”) have confirmed that there is no disagreement or unresolved matters between the Company and PwC, and there are no matters in connection with the resignation of PwC as the auditor of the Company that should be brought to the attention of the Shareholders or creditors of the Company and the Stock Exchange. PwC has also confirmed that there are no circumstances connected with the resignation that they consider should be brought to the attention of the Shareholders and creditors of the Company.

The Board and Audit Committee further confirmed that PwC has not commenced any audit work on the consolidated financial statements of the Group for the year ending 31 December 2024. It is therefore expected that the change of auditor will not have any material impact on the annual audit of the Group for the year ending 31 December 2024.

The Board would like to take this opportunity to express its sincere gratitude to PwC for its professional and quality services rendered to the Group during the past years.

The Board further announces that it has resolved to propose the appointment of Elite Partners CPA Limited (“**Elite Partners**”) as the new auditors of the Company for the financial year of 2024 upon consideration and approval by the meeting of the Board and the Audit Committee.

The Audit Committee has considered a number of factors in assessing the appointment of Elite Partners as the new auditors, including but not limited to (i) the audit proposal of Elite Partners; (ii) its experience, knowledge and technical competence in providing audit work to companies listed on the Stock Exchange; (iii) its independence from the Group and objectivity; and (iv) the relevant rules and guidance.

Based on the above, the Audit Committee has concluded that Elite Partners is eligible and suitable to act as the new auditors of the Company for the financial year of 2024. The Board and the Audit Committee are of the view that the change of auditors would enhance the cost-effectiveness of the Company's audit, maintain audit quality and is in the interest of the Company and its Shareholders as a whole.

The resolution is subject to consideration and approval by the extraordinary general meeting of the Company. A circular containing, among other things, details of the resolution, together with the notice of the extraordinary general meeting, will be published in due course.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Board hereby announces that the Company has considered and approved, among other things, the resolution in relation to the amendments to the Company's articles of association (the "**Articles of Association**").

In accordance with regulatory rules and regulations issued by the China Securities Regulatory Commission, the Stock Exchange and relevant regulatory authorities, and in light of the actual circumstances of the Company, the Board proposes to amend the Articles of Association. After the proposed amendments to the Articles of Association come into effect, the full text of the revised Articles of Association will be published on the Company's website (<http://www.lcgc.cn>) and the Stock Exchange's website (www.hkexnews.hk).

The Articles of Association is written in Chinese without an official English version, and any English translation is for reference only. In case of inconsistency between the two versions, the Chinese version shall prevail.

The resolution is subject to consideration and approval by the extraordinary general meeting of the Company. A circular containing, among other things, details of the resolution, together with the notice of the extraordinary general meeting, will be published in due course.

By order of the Board
PU'ER LANCANG ANCIENT TEA CO., LTD.
普洱瀾滄古茶股份有限公司
Ms. DU Chunyi
Chairlady and Executive Director

Hong Kong, 17 July 2024

As at the date of this announcement, the board of directors of the Company comprises (i) Ms. Du Chunyi, Ms. Wang Juan, Mr. Zhang Muheng, Ms. Shi Yijing, Mr. Fu Gang and Mr. Liu Jiajie as executive directors; (ii) Mr. Zhou Xinzong as a non-executive Director; and (iii) Ms. Cao Wei, Dr. Xie Xiaoyao, Mr. Tang Zhangliang and Dr. Yang Kequan as independent non-executive directors.