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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)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2024

2024 INTERIM RESULTS HIGHLIGHTS

FINANCIAL SUMMARY

	Six months ended June 30,		Year-on-year change %
	2024 (RMB'000)	2023 (RMB'000)	
Revenue ⁽¹⁾	195,130	232,028	-15.9
Gross profit ⁽²⁾	124,666	139,825	-10.8
Profit before income tax	3,025	27,032	-88.8
Profit attributable to owners of the Company ⁽³⁾	5,089	24,366	-79.1
Basic and diluted earnings per share ⁽⁴⁾	0.06	0.39	-84.6

Notes:

- (1) The revenue decreased by 15.9% from RMB232.0 million for the six months ended June 30, 2023 to RMB195.1 million for the six months ended June 30, 2024.
- (2) The gross profit decreased by 10.8% from RMB139.8 million for the six months ended June 30, 2023 to RMB124.7 million for the six months ended June 30, 2024.
- (3) The profit attributable to owners of the Company decreased by 79.1% from RMB24.4 million for the six months ended June 30, 2023 to RMB5.1 million for the six months ended June 30, 2024.
- (4) The basic earnings per share for the six months ended June 30, 2024 amounted to RMB0.06.

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Pu'er Lancang Ancient Tea Co., Ltd. (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**” or “**Our**”) for the six months ended June 30, 2024 (the “**Reporting Period**” or “**first six months of 2024**”), together with comparative figures for the six months ended June 30, 2023 (the “**same period of 2023**” or “**first six months of 2023**”). Such results are as follows:

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AS AT JUNE 30, 2024

	Note	Six months ended June 30,	
		2024 RMB'000 (unaudited)	2023 RMB'000 (audited)
Revenue	3	195,130	232,028
Cost of sales		<u>(70,464)</u>	<u>(92,203)</u>
Gross profit		124,666	139,825
Selling and marketing expenses		(77,529)	(67,631)
Administrative expenses		(38,472)	(38,523)
Net impairment losses on financial assets		(4,367)	(2,795)
Other income		4,889	2,179
Other gains – net		<u>1,520</u>	<u>336</u>
Operating profit		10,707	33,391
Finance costs – net	4	<u>(7,682)</u>	<u>(7,657)</u>
Share of net profits of investments in associates		<u>–</u>	<u>1,298</u>
Profit before income tax		3,025	27,032
Income tax expense	5	<u>1,389</u>	<u>(3,464)</u>
Profit for the period	6	<u>4,414</u>	<u>23,568</u>
Profit attributable to:			
– Owners of the Company		5,089	24,366
– Non-controlling interests		<u>(675)</u>	<u>(798)</u>
		<u>4,414</u>	<u>23,568</u>
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss:</i>			
Changes in the fair value of an equity instrument at fair value through other comprehensive income, net of tax		<u>931</u>	<u>(842)</u>
Other comprehensive income for the period, net of tax		<u>931</u>	<u>(842)</u>
Total comprehensive income for the period		<u>5,345</u>	<u>22,726</u>
Earnings per share for profit attributable to owners of the Company for the period	8		
Basic and diluted (expressed in RMB per share)		<u>0.06</u>	<u>0.39</u>

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE FINANCIAL POSITION AS AT JUNE 30, 2024

	<i>Note</i>	June 30, 2024 RMB'000 (unaudited)	December 31, 2023 RMB'000 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9	154,685	139,847
Right-of-use assets		169,054	179,723
Intangible assets		3,100	2,610
Investments in associates		16,601	18,288
Financial asset at the fair value through other comprehensive income		10,443	9,512
Prepayments		13,109	6,394
Deferred income tax assets		66,852	59,840
		<u>433,844</u>	<u>416,214</u>
Current assets			
Financial asset at fair value through profit or loss		42,642	–
Inventories	10	908,866	841,440
Trade and other receivables	11	85,859	77,652
Prepayments		36,602	20,357
Restricted cash		10,600	10,000
Cash and cash equivalents		123,441	262,313
		<u>1,208,010</u>	<u>1,211,762</u>
Total assets		<u>1,641,854</u>	<u>1,627,976</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		126,000	84,000
Other reserves		450,997	492,066
Retained earnings		406,345	432,336
		<u>983,342</u>	<u>1,008,402</u>
Non-controlling interests		<u>1,230</u>	<u>1,905</u>
Total equity		<u>984,572</u>	<u>1,010,307</u>

	<i>Note</i>	June 30, 2024 <i>RMB'000</i> <i>(unaudited)</i>	December 31, 2023 <i>RMB'000</i> <i>(audited)</i>
LIABILITIES			
Non-Current liabilities			
Deferred income		10,069	10,535
Borrowings	<i>12</i>	96,700	118,300
Lease liabilities		93,373	103,479
Deferred income tax liabilities		<u>–</u>	<u>–</u>
		200,142	232,314
Current liabilities			
Borrowings	<i>12</i>	173,500	132,200
Trade and other payables	<i>13</i>	237,171	199,705
Contract liabilities		12,581	16,666
Lease liabilities		31,365	31,282
Current income tax liabilities		<u>2,523</u>	<u>5,502</u>
		457,140	385,355
Total liabilities		<u>657,282</u>	<u>617,669</u>
Total equity and liabilities		<u>1,641,854</u>	<u>1,627,976</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2024

1. GENERAL INFORMATION

Pu'er Lancang Ancient Tea Co., Ltd. (the "Company", formerly as "Lancang Ancient Tea Co., Ltd.") was incorporated in the People's Republic of China (the "PRC") on September 11, 2002, as a limited liability company under the Company Law of the PRC. On February 13, 2018, the Company was converted to a joint stock limited liability company under the Company Law of the PRC and the registered name was changed to Pu'er Lancang Ancient Tea Co., Ltd.. The address of its registered office is Pingzhang Road, West Suburb Hot Spring Community, Menglang Town, Lancang Lahu Ethnic Autonomous County, Pu'er City, Yunnan Province, PRC.

The Group is principally engaged in the development, manufacturing and sales of tea products, primarily Pu'er tea products, in the PRC.

Ms. Du Chunyi and Ms. Wang Juan, who are acting in concert, together are the ultimate controlling shareholders of the Company.

The Company's H shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") since December 22, 2023.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix D2 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain investment properties that are measured at fair values.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2024 are the same as those presented in the Group's annual consolidated financial statements for the year ended December 31, 2023.

Application of amendments to HKFRSs

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the Group's annual period beginning on January 1, 2024 for the preparation of the condensed consolidated financial statements:

Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements

3. REVENUE AND SEGMENT INFORMATION

The chief operating decision-maker ("CODM") has been identified as the executive directors of the Group. The CODM reviews the performance of the Group on a regular basis.

As substantial business operations of the Group relate to the manufacture and sales of tea products and the provision of services, the CODM makes decisions about resources allocation and performance assessment based on the entity-wide condensed consolidated financial statements. No geographical segment information is presented as substantially all the revenue and operating profits of the Group are derived from the PRC based on the location of customers and substantially all the operating assets of the Group are located in the PRC. On that basis, the executive directors of the Company regard that there is only one segment which is used to make strategic decisions for the Group qualified as operating segment under HKFRS 8. No separate segmental analysis is presented in the condensed consolidated financial statements.

REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from the sales of goods and the provision of services recognised is as follows:

	Six months ended June 30,	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
At a point in time		
– Sales of tea products	183,306	212,561
– Sales of other products	9,614	16,391
	<u>192,920</u>	<u>228,952</u>
Over time		
– Provision of services	<u>2,210</u>	<u>3,076</u>
	<u><u>195,130</u></u>	<u><u>232,028</u></u>

During the six months ended June 30, 2024, no customer individually contributed more than 10% of the Group's total revenue (six months ended June 30, 2023: NIL).

4. FINANCE COSTS -NET

	Six months ended June 30,	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Finance income:		
Interest income	(407)	(158)
Interest income from sublease	–	(4)
	<u>(407)</u>	<u>(162)</u>
Finance costs:		
Interest expense on bank borrowings	4,878	3,946
Interest expense on lease liabilities	3,211	3,873
	<u>8,089</u>	<u>7,819</u>
Finance costs – net	<u><u>7,682</u></u>	<u><u>7,657</u></u>

5. INCOME TAX EXPENSE

	Six months ended June 30,	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Current income tax		
– PRC corporate income tax	5,623	6,333
Deferred income tax		
– PRC corporate income tax	<u>(7,012)</u>	<u>(2,869)</u>
Income tax expense	<u><u>(1,389)</u></u>	<u><u>3,464</u></u>

Income tax provision of the Group in respect of operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the period, based on the existing legislation, interpretations and practices in respect thereof. Pursuant to the PRC Corporate Income Tax Law (the “CIT Law”), the CIT is unified at 25% for the six months ended June 30, 2024 (six months ended June 30, 2023: same).

Under the relevant regulations of the CIT Law, for eligible enterprises which meet the criteria of small low-profit enterprises, the annual taxable income that is not more than RMB1,000,000 shall be recognised at 25% of income and be subject to a CIT rate of 20%; the annual taxable income that is more than RMB1,000,000 but less than RMB3,000,000 shall be recognised at 50% of income and be subject to a CIT rate of 20%. During the six months ended June 30, 2024, certain entities of the Group were eligible for small low-profit enterprises and subject to stated preferential income tax rates (six months ended June 30, 2023: same).

Under the relevant regulations of the CIT Law, the Company and a subsidiary of the Group located in the western region in the PRC are qualified to enjoy the preferential income tax rate of 15% until December 31, 2030.

6. PROFIT FOR THE PERIOD

	Six months ended June 30,	
	2024	2023
	RMB'000	RMB'000
	(unaudited)	(audited)
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	11,141	11,109
Depreciation of right-of-use assets	17,105	18,657
Expenses related to short-term leases in respect of rented premises	1,728	1,846
Exchange losses, net	(2,107)	–
	<u>11,141</u>	<u>11,109</u>

7. DIVIDENDS

During the current interim period, a final dividend of RMB0.37 per share (inclusive of tax) in respect of the year ended December 31, 2023 (six months ended June 30, 2023: RMB0.1 per share in respect of the year ended December 31, 2022) was declared to shareholders of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to RMB31,080,000 (six months ended June 30, 2023: RMB6,300,000) and RMB12,864,000 (six months ended June 30, 2023: nil).

8. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares during the period.

The Company did not have any potential ordinary shares outstanding during the six months ended June 30, 2024, thus diluted earnings per share equals to the basic earnings per share (six months ended June 30, 2023: same).

	Six months ended June 30,	
	2024	2023
	(unaudited)	(audited)
Profit attributable to owners of the Company (RMB'000)	5,089	24,366
Weighted average number of ordinary shares in issue (in thousands)	89,769	63,000
	<u>5,089</u>	<u>24,366</u>
Basic and diluted earnings per share attributable to the owners of the Company (expressed in RMB per share)	<u>0.06</u>	<u>0.39</u>

9. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB1,156,000 (six months ended June 30, 2023: RMB90,000) for cash proceeds of RMB967,000 (six months ended June 30, 2023: RMB103,000), resulting in a loss on disposal of RMB189,000 (gains on disposal for the six months ended June 30, 2023: RMB13,000). In addition, the Group acquired items of property, plant and equipment with a total cost of RMB27,135,000.

As at June 30, 2024, land use rights of RMB29,810,000 (year ended December 31, 2023: RMB60,165,000) were pledged to banks to secure bank borrowings.

10. INVENTORIES

	June 30, 2024 <i>RMB'000</i> <i>(unaudited)</i>	December 31, 2023 <i>RMB'000</i> <i>(audited)</i>
Raw materials	135,960	101,555
Work in progress	330,870	328,180
Finished goods	443,917	413,586
	<hr/>	<hr/>
Inventories – gross	910,747	843,321
Less: provision for impairment	(1,881)	(1,881)
	<hr/>	<hr/>
Inventories – net	908,866	841,440
	<hr/> <hr/>	<hr/> <hr/>

11. TRADE AND OTHER RECEIVABLES

	June 30, 2024 <i>RMB'000</i> <i>(unaudited)</i>	December 31, 2023 <i>RMB'000</i> <i>(audited)</i>
Trade receivables		
– Third parties	76,944	63,626
– Related parties	5,649	3,433
	<hr/>	<hr/>
	82,593	67,059
	<hr/>	<hr/>
Less: allowance for impairment for trade receivables	(8,436)	(4,106)
	<hr/>	<hr/>
	74,157	62,953
	<hr/>	<hr/>
Other receivables	11,702	14,699
	<hr/>	<hr/>
Total trade and other receivables	85,859	77,652
	<hr/> <hr/>	<hr/> <hr/>

The Group generally allows a credit period of 15 to 60 days to its customers. The ageing analysis of trade receivables based on invoice date is as follows:

	June 30, 2024 RMB'000 (unaudited)	December 31, 2023 RMB'000 (audited)
0-30 days	30,415	33,923
31-60 days	14,964	18,119
61-90 days	16,402	8,438
91-180 days	12,605	3,057
Over 181 days	8,207	3,522
	<u>82,593</u>	<u>67,059</u>

As at June 30, 2024 and December 31, 2023, other receivables of the Group were all denominated in RMB and approximated their fair value.

12. BORROWINGS

	June 30, 2024 RMB'000 (unaudited)	December 31, 2023 RMB'000 (audited)
Non-current		
Bank borrowings	99,900	197,500
Less: current portion of non-current borrowings	<u>(3,200)</u>	<u>(79,200)</u>
	<u>96,700</u>	<u>118,300</u>
Current		
Bank borrowings	170,300	53,000
Current portion of non-current borrowings	<u>3,200</u>	<u>79,200</u>
	<u>173,500</u>	<u>132,200</u>
Total borrowings	<u>270,200</u>	<u>250,500</u>

- (a) As at June 30, 2024, bank borrowings of RMB239,200,000 (as at December 31, 2023: RMB237,500,000) were secured by property, plant and equipment, inventories and right-of-use assets.
- (b) The weighted average effective interest rates for the six months ended June 30, 2024 was 3.69% (year ended December 31, 2023: 3.70%) per annum.

As at June 30, 2024 and December 31, 2023, the Group's borrowings were repayable as follows:

	June 30, 2024 RMB'000 (unaudited)	December 31, 2023 RMB'000 (audited)
Within 1 year	173,500	132,200
Between 1 and 2 years	96,700	23,200
Between 2 and 5 years	–	95,100
	<u>270,200</u>	<u>250,500</u>

The carrying amounts of the borrowings approximate their fair values and all balances were denominated in RMB.

13. TRADE AND OTHER PAYABLES

	June 30, 2024 RMB'000 (unaudited)	December 31, 2023 RMB'000 (audited)
Trade payables		
– Third parties	113,859	85,685
– Related parties	19,373	27,152
	<u>133,232</u>	112,837
Other payables	103,939	86,868
	<u>237,171</u>	<u>199,705</u>

The ageing analysis of the trade payables based on invoice dates is as follows:

	June 30, 2024 RMB'000 (unaudited)	December 31, 2023 RMB'000 (audited)
Up to 3 months	88,738	33,680
3 to 6 months	11,759	17,496
6 months to 1 year	25,793	54,679
1 year to 2 years	6,942	6,982
	<u>133,232</u>	<u>112,837</u>

As at June 30, 2024 and December 31, 2023, the carrying amounts of trade and other payables were all denominated in RMB and approximated their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

Overall Business Performance

During the Reporting Period, the Group achieved operating revenue of RMB195.1 million and profit attributable to owners of the Company of RMB5.1 million, representing a decrease of 15.9% and 79.1%, respectively, as compared to the same period in 2023. The decline in the results of operations of the Company was due to, on the one hand, the decrease in the Group's operating revenue resulted from the slow recovery of the terminal consumption and the intensified industry competition; on the other hand, the increase in the overall selling expenses of the Group as the Group increased investment in brand promotion and sales and promotion of product.

The Group's operating revenue mainly came from the procurement of offline distributors. During the Reporting Period, the purchase amount of distributors from the Group decreased, which was related to the slow recovery of consumption in the post-epidemic era, changes in consumption patterns and behaviors, intensified industry competition, and the increased difficulties in operating offline physical stores. From the perspectives of the stability and sustainability of the Group's overall operation, in order to address the operation conditions of offline physical stores, on the one hand, we encouraged distributors to increase the exposure and traffic of their stores through the network and media promotion, and at the same time, we also give certain support to distributors in terms of payment collection and sales policies to mitigate the operating pressure of offline stores; on the other hand, we also actively developed online e-commerce and key account ("KA") customers, resulting in an increase of 30.5% and 143.2% in the sales revenues of online e-commerce and KA customers during the Reporting Period, respectively, as compared to the same period in 2023.

Business Performance of Sub-brands and Product Lines

With Lan Cang Gu Cha (瀾滄古茶) as the core brand, the Company has developed and structured three product lines, namely 1966, Tea Mama (茶媽媽) and Iland Tea (岩冷) to meet the various demands from different groups of consumers, such as Pu'er enthusiasts, sophisticated tea drinkers, broader mass consumers, and new middle-class consumers with stronger purchasing power. Different brands and product lines have their own features to meet the needs of different consumers, which is also conducive to expanding different types of sales channels by the Company.

During the Reporting Period, 1966 of the Group achieved operating revenue of RMB130.0 million, representing a decrease of 16.1% as compared to the same period in 2023, while Tea Mama (茶媽媽) and Iland Tea (岩冷) achieved a total operating revenue of RMB56.6 million, representing a decrease of 19.1%. The decline in operating revenue of each product line was mainly related to the decrease in the procurement volume of offline stores.

Business Performance of Our Distribution Network

Our sales network covers both online and offline, and the channel types include distribution, direct sale and KA. During the Reporting Period, our sales revenues from distributors and direct sale customers were RMB123.2 million and RMB25.6 million, representing a decrease of 29.9% and 2.3%, respectively, as compared to the same period in 2023. Sales revenues from KA channel customers were RMB15.1 million, representing an increase of 143.2% as compared to the same period last year.

Under the distributor channel and the offline direct sale channel, the Company mainly sells products or services to end consumers in the form of offline exclusive stores or authorized stores, and the slow recovery of consumption in offline physical stores leads to a decline in the scale of operating revenue from such sales channel during the Reporting Period. In terms of the KA channel, the operating revenue increased by 143.2% during the Reporting Period, on the one hand, attributable to the uniqueness and differentiation of the sales model and product selection and display of the KA channel, attracting certain consumers to continuously consume and re-purchase and constantly expanding such consumption and re-purchases; on the other hand, also attributable to the continuous enhancement of supply chain capabilities and supporting service capabilities of the Company, which continuously satisfy the procurement needs of customers in such channel.

In terms of online sales, the Company achieved a revenue of RMB31.2 million during the Reporting Period, representing an increase of 30.5% as compared to the same period last year. Due to changes in the consumption methods of some consumers in the post-pandemic era, enterprises in the tea industry have continued to invest in online sales, and the Company has also implemented the corresponding development and sales strategies, increased investments in sales and promotion of online channels, and established wholly-owned companies in relation to the online sales business during the Reporting Period, aiming to form a more professional and systematic management in the organizational structure and appraisal and settlement of the online sales business.

OUTLOOK AND FUTURE PLANS

Yunnan Pu'er tea ranks first among all tea categories and also ranks first among 4,471 geographical indications, according to the "Top 100 Regional Public Brand Reputations of Geographical Indication of China for Agricultural Products (Tea) in 2023" (《2023年中國地理標誌農產品(茶葉)區域公用品牌聲譽前100位》) released by the Center for China Agriculture Brand (中國農業品牌研究中心) (affiliated to the China Academy for Rural Development (CARD) of Zhejiang University (浙江大學中國農村發展研究院), focusing on the research of agriculture, rural areas and farmer brands), which to a certain extent reflects the industry popularity and consumer recognition of Yunnan Pu'er tea. With the continued development of the tea industry and consumers' increasing attention to healthy lifestyles, we remain positive and optimistic about the development and growth of Pu'er tea and the Chinese tea market.

During the six months ended June 30, 2024, the Group's results of operations experienced a decline, reflecting the existing problems in the industry, market, company operations and other aspects at the current stage. Thus, the management of the Company will actively analyze and adjust production, operation and sales strategies in a timely manner based on the actual situation to cope with the current complex and evolving situation. Looking forward to the second half of 2024, the Company will focus on specific methods while firmly maintaining its established development strategy: in terms of sales channels, we will strengthen the promotion and management of offline distributors to ensure the stability of operations, and enhance the development of new channels and new customers at the same time; in terms of products, we will continue to promote and sell classic series of products, and launch festive products in conjunction with such traditional holidays as Mid-Autumn Festival and Spring Festival, and we will actively develop new products that satisfy various types of customers while selling traditional classic products, thus to meet diversified consumer needs.

The Company convened a shareholders' meeting on August 7, 2024 to consider and approve, among other things, a proposal on changing the usage of part of the proceeds from the listing. The Company will use part of the proceeds to invest in the construction of the new project, namely the Shanquan fermentation and capacity expansion project (the "**Shanquan Fermentation Project**") (for details of the "Shanquan Fermentation Project", please refer to the circular published by the Company dated July 19, 2024), and adjust part of the proceeds to "working capital and other general corporate purposes" at the same time. The Shanquan Fermentation Project plan to increase the Company's production capacity in the fermented tea products, which will help improve the Company's supply chain capability; and the Company will adjust part of the proceeds to supplement general working capital, which is of positive significance for the Company to cope with the operating conditions and market changes at the current stage.

The promotion of new channels, new products or new projects and their effects on the Company are subject to the factors such as macro economy, industry development and actual operating conditions of the Company. The Board will continue to evaluate the evolving market conditions and may modify or revise these plans when necessary, to cope with the evolving market conditions or potential risks, make full use of the proceeds from the Listing and strive for better performance for the Group.

FINANCIAL REVIEW

Revenue

	Six months ended June 30,			
	2024		2023	
	RMB'000	%	RMB'000	%
Revenue contributed from				
Lan Cang Gu Cha – 1966	130,253	66.8	155,243	66.9
Lan Cang Gu Cha – Tea Mama and Iland Tea	56,632	29.0	69,991	30.2
Other services and products	8,245	4.2	6,794	2.9
Total revenue	195,130	100.0	232,028	100.0

The Group's revenue by brand mainly includes the sales of 1966, Tea Mama (茶媽媽), Iland Tea (岩冷), and other tea-related services and products. As of the first six months of 2024, the Group's revenue amounted to RMB195.1 million, representing a decrease of RMB36.9 million as compared to RMB232.0 million for the first six months of 2023, with a decline rate of 15.9%, primarily due to the decrease in sales of the Group's 1966 series products, Tea Mama and Iland Tea series products by RMB38.3 million, which was attributable to the reduction in procurement from the Group by offline stores as end-use consumption was still in the process of slow recovery.

Cost of Sales

The Group's cost of sales mainly consists of direct material costs, direct labor costs, manufacturing expenses, etc. As of the first six months of 2024, the Group's cost of sales amounted to RMB70.5 million, representing a decrease of RMB21.7 million as compared to RMB92.2 million for the first six months of 2023, primarily attributable to the decrease in sales, which was generally in line with the declining trend of revenue from 1966 series products, Tea Mama and Iland Tea series products of the Group.

Gross Profit and Gross Profit Margin

As of the first six months of 2024, the Group's gross profit amounted to RMB124.7 million, representing a decrease of RMB15.1 million as compared to RMB139.8 million for the first six months of 2023, with a decline rate of 10.8%, primarily attributable to the decrease in the Group's revenue from the sales of 1966 series products, Tea Mama and Iland Tea series products in the first six months of 2024; and the gross profit margin was 63.9%, representing an increase of 3.6% as compared to 60.3% for the first six months of 2023. The increase in gross profit margin was primarily due to the growth in gross margin of brand 1966 driven by a higher proportion of sales of favored premium products in the 1966 series products for the first six months of 2024.

Selling and Marketing Expenses

The Group's selling and marketing expenses mainly include sales personnel compensation, marketing campaign expenses, lease right-of-use assets of direct-sale stores, and other expenses. As of the first six months of 2024, the Group's selling and marketing expenses increased by RMB9.9 million as compared to RMB67.6 million for the first six months of 2023, primarily attributable to the increase in the Group's investment in brand publicity and product sales promotion in the first half of 2024 to enhance the brand reputation and promote the development of various channels, which resulted in an increase in selling and marketing expenses.

Administrative Expenses

The Group's administrative expenses primarily represent administrative staff remuneration, lease right-of-use assets of office space and depreciation and amortization expenses. For the first six months of 2024, the Group's administrative expenses amounted to RMB38.5 million, remaining at the same level as compared to RMB38.5 million for the first six months of 2023, which were relatively stable.

Net Impairment Losses on Financial Assets

The Group's net impairment losses on financial assets primarily represent the generally expected credit losses on trade and other receivables. For the first six months of 2024, the Group's net losses on provision for impairment losses on financial assets amounted to RMB4.4 million, representing an increase of RMB1.6 million as compared to RMB2.8 million for the first six months of 2023, primarily attributable to the recovery of distributors' operation falling short of expectation, and an increase in the provision for impairment of financial assets due to an increase in the amount due from distributors as at June 30, 2024.

Finance Costs – net

The Group's finance costs mainly refer to interest expenses of the bank and interest expenses for lease liabilities. For the first six months of 2024, the Group's finance costs amounted to RMB7.7 million, remaining at the same level as compared to RMB7.7 million for the first six months of 2023, which were relatively stable.

Income Tax (Credit)

The Group's income tax includes enterprise income tax expense and deferred tax expense. The income tax credit for the first six months of 2024 was RMB1.4 million, representing a decrease of RMB4.9 million as compared to RMB3.5 million for the first six months of 2023, primarily due to the increase in deferred tax expenses.

Right-of-use Assets

The Group's right-of-use assets mainly include land use rights, leased office space, warehouses, and direct-sale stores. The right-of-use assets decreased by RMB10.6 million from RMB179.7 million as of December 31, 2023 to RMB169.1 million as of June 30, 2024, such decrease was mainly due to the decrease in depreciation and amortization of right-of-use assets.

Trade and Other Receivables

The Group's trade and other receivables are primarily the arrears due from customers on credit sales. As at June 30, 2024, the trade and other receivables amounted to RMB85.9 million, representing an increase of RMB8.2 million as compared to RMB77.7 million as at December 31, 2023, primarily attributable to the recovery of distributors' operation falling short of expectation, and an increase in the amount owed by distributors.

Prepayments

The Group's prepayments mainly include marketing and promotion expenses, prepayments for services, and prepayments for raw materials, packaging and auxiliary materials. As at June 30, 2024, the prepayments were RMB36.6 million, representing an increase of RMB16.2 million as compared to RMB20.4 million as at December 31, 2023, mainly attributable to prepaid marketing and promotion expenses that have not been utilized due to the business not yet commenced.

Trade and Other Payables

The Group's trade and other payables mainly represented payables for the purchase of raw material, dealer deposits, dividends of shareholders, staff wages, taxes, etc. Trade and other payables amounted to RMB237.2 million as at June 30, 2024, representing an increase of RMB37.5 million as compared to RMB199.7 million as at December 31, 2023, primarily attributable to the increase in the dividends payable to shareholders for 2023 and accounts payable to suppliers.

Current Assets

The Group's current assets decreased slightly from RMB1,211.8 million as at December 31, 2023 to RMB1,208.0 million as at June 30, 2024, representing a small change.

Liquidity and Capital Resources

For the six months ended June 30, 2024, the Group financed our operations principally through our operating activities and bank borrowings. Our Group's cash and cash equivalents decreased from RMB262.3 million as of December 31, 2023 to RMB123.4 million as of June 30, 2024, primarily attributable to more cash payments of the Group generated from operating activities as compared to the cash inflows generated from operating activities for the first six months of 2024, as well as the purchase of wealth management products with idle funds, which caused a decrease in the cash equivalents of the Group for the six months ended June 30, 2024.

Debt

(1) Borrowings

The Group's borrowings increased from RMB250.5 million as at December 31, 2023 to RMB270.2 million as at June 30, 2024, representing an increase in the scale of borrowings.

(2) Gearing ratio

The Group's gearing ratio increased from 20% as at December 31, 2023 to 21.5% as at June 30, 2024. The slight increase in the gearing ratio was caused by an increase in the scale of borrowings.

(3) Pledge of assets

- 1) As of June 30, 2024, the Group's property, plant and equipment with a net book value of RMB77.5 million are used as bank mortgages to secure bank borrowings;
- 2) As of June 30, 2024, the Group's inventories with a net book value of RMB23.1 million are used as bank mortgages to secure bank borrowings; and
- 3) As of June 30, 2024, the Group's right-of-use assets for land with a net book value of RMB29.8 million are used as bank mortgages to secure bank borrowings.

Foreign Exchange Risk

The Group's operations are primarily dominated in RMB. For the first six months of 2024, the Company's fund deposits raised from the overseas issuance of shares resulted in a foreign exchange gain of RMB2.1 million for the period due to the changes in foreign exchange rates. The Group took positive measures to minimise the losses caused by the foreign exchange to the Company by adjusting the inbound funds when appropriate.

Contingent Liabilities

As at June 30, 2024, the Group had no contingent liability.

Capital Commitments

As of June 30, 2024, the Group's unpaid capital commitments amounted to RMB36.7 million.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the first six months of 2024, the Group had no significant investments held, material acquisitions and disposals of subsidiaries, associates and joint ventures.

USE OF NET PROCEEDS FROM THE LISTING

The Company completed the Global Offering and listing on December 22, 2023. The net proceeds raised by the Company from the Global Offering, amounted to approximately HK\$154.1 million, after deducting the underwriting commissions and other estimated fees received by the Company in connection with the Global Offering. As of June 30, 2024, the net proceeds raised by the Group from the Global Offering amounted to approximately RMB106.6 million.

The Company specified that it intended to change the use of certain proceeds in a circular published on July 19, 2024, details of which were set out in “Proposed Change in Use of Proceeds” of the circular. The plan for change in the use of proceeds was approved by way of a poll at the 2024 First Extraordinary General Meeting held on August 7, 2024 by the Company. Save for the aforementioned change in the use of proceeds, the Company will use the proceeds from the Global Offering in the manner as disclosed in the section headed “Future Plans and Use of Proceeds” in the Prospectus dated December 14, 2023 (the “Prospectus”) announced by the Company.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of June 30, 2024, save as disclosed in the “Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures” in this announcement and the “Future Plans and Use of Proceeds” in the Prospectus, the Group has no existing plans for any other material investments or capital assets.

EMPLOYEE AND REMUNERATION POLICY

As of June 30, 2024, the Group had a total of 831 employees. The Group’s employee remuneration policy is determined by taking into account factors such as the remuneration in the local market, the overall remuneration level in the industry, operating efficiency, position and employees’ performance. The Group conducts performance appraisals once every year for its employees, the results of which are taken into consideration in the annual salary review and promotion assessment. The Group’s employees are considered for annual bonuses based on certain performance criteria and appraisal results. Social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve the quality of customer service. At the same time, we have unions that protect the rights of our employees, help us achieve our economic goals and encourage employees to participate in management decisions. As of June 30, 2024, the Group did not experience any major difficulties in recruitment, nor experience any substantial loss in manpower or any material labor dispute.

SIGNIFICANT EVENTS SUBSEQUENT TO THE PERIOD

There was no any significant events which have a significant impact on the Group after the Reporting Period and up to the date of this announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to the establishment of stringent corporate governance practices and procedures, and continuously striving to maintain a high standard of corporate governance, so as to enhance the Company's accountability and transparency continuously.

To the best knowledge, belief and information of the Directors, the Company had complied with all applicable code provisions under the Corporate Governance Code (the "CG Code") as set out in Part two of Appendix C1 to the Listing Rules and other applicable legal and regulatory requirements since its listing, and there has been no deviation from the code provisions of the CG Code for the six months ended June 30, 2024.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") set forth in Appendix C3 to the Listing Rules as a code of conduct for all securities transactions by the Directors, Supervisors (the "Supervisors") and relevant employees of the Company. The Company confirmed that all Directors and Supervisors always abided by the required standards as set out in the Model Code during the six months ended June 30, 2024 after making specific enquiries to all the Directors and Supervisors. During the above-mentioned period, the Company was not aware of any case of non-compliance with the Model Code by the relevant employees.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company (including sale of treasury shares) during the Reporting Period. As of June 30, 2024, there were no treasury shares (as defined under the Listing Rules) held by the Company.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended June 30, 2024 (six months ended June 30, 2023: Nil).

AUDIT COMMITTEE

The Audit Committee of the Company comprised four independent non-executive Directors, namely, Ms. Cao Wei, Dr. Xie Xiaoyao, Mr. Tang Zhangliang and Dr. Yang Kequan. Ms. Cao Wei, the chairlady of the Audit Committee, has expertise in accounting and financial management. The primary duties of the Audit Committee are to review the financial information of the Company and to monitor the financial reporting system and internal control procedures of the Company.

REVIEW OF UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

The Audit Committee and the Board of the Company have reviewed the unaudited consolidated interim results of the Group for the six months ended June 30, 2024. The Audit Committee considers that the unaudited consolidated interim results of the Group for the six months ended June 30, 2024 are in compliance with the applicable accounting standards, laws and regulations. The Audit Committee has also discussed matters with respect to the Company's internal audit work and financial reporting with relevant management of the Company.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the website of the Stock Exchange at **www.hkexnews.hk** and the website of the Company at **www.lcgc.cn**.

The Company's interim report for the six months ended June 30, 2024 will be dispatched to the shareholders (if requested) and published on the website of the Company at **www.lcgc.cn** and the website of the Stock Exchange at **www.hkexnews.hk** respectively 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, August 26, 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.