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BEIJING TONG REN TANG CHINESE MEDICINE COMPANY LIMITED

北京同仁堂國藥有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 3613)

**CONTINUING CONNECTED TRANSACTIONS
REGARDING
THE RENEWED PRC DISTRIBUTION FRAMEWORK AGREEMENT**

THE RENEWED PRC DISTRIBUTION FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated 14 December 2016 in relation to, inter alia, the continuing connected transactions contemplated under the Existing PRC Distribution Framework Agreement with Tong Ren Tang Holdings.

As the Existing PRC Distribution Framework Agreement will expire on 31 December 2019, the Company has entered into the Renewed PRC Distribution Framework Agreement with Tong Ren Tang Holdings on 2 December 2019 to renew the PRC distribution arrangement for a further term of three years ending 31 December 2022.

LISTING RULES IMPLICATIONS

Tong Ren Tang Holdings is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Renewed PRC Distribution Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) of the proposed annual caps of the transactions contemplated under the Renewed PRC Distribution Framework Agreement exceed 5% and the proposed annual caps are more than HK\$10,000,000, the transactions contemplated thereunder are subject to reporting, announcement, circular, annual review, as well as the independent shareholders' approval requirements under the Listing Rules.

With the approval of the Independent Board Committee, Somerley Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Renewed PRC Distribution Framework Agreement.

A circular containing, among others, details of the Renewed PRC Distribution Framework Agreement, a letter from the Independent Board Committee and a letter from the independent financial adviser on the terms of the Renewed PRC Distribution Framework Agreement, together with a notice convening the EGM, will be despatched to the Shareholders on or before 6 December 2019.

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The Renewed PRC Distribution Framework Agreement

- Date** : 2 December 2019 (after trading hours)
- Parties** : (1) the Company
(2) Tong Ren Tang Holdings
- Term** : The Renewed PRC Distribution Framework Agreement shall be for a term of three years from 1 January 2020 to 31 December 2022 (both days inclusive) and shall be effective upon the approval of the Independent Shareholders at the EGM.
- Major terms and conditions** :
 - The Company agreed that the Tong Ren Tang Group may purchase the Owned Products from the Group and may distribute the same to, among others, retailers or end-users in the PRC by acting as the non-exclusive distributor of the Group.
 - Details and the quantities of such Owned Products shall be determined by both parties in accordance with the then market conditions and shall be stated in separate implementation agreements within the ambit of the Renewed PRC Distribution Framework Agreement.
- Pricing policy** : Price for the Owned Products shall be determined based on:
(i) a reasonable cost plus a fair and reasonable profit margin: (a) the reasonable cost shall be determined by reference to the cost of the raw materials, the cost of labour and the manufacturing expense,

etc.; and (b) the profit margin shall be determined by reference to the average gross profit rate of the Group in the previous years, which shall not be less than 50%; and

- (ii) the prevailing market price, which is with reference to the price and sale terms of similar products in the industry and in the PRC market at the time when a separate implementation agreement is entered into.

The purchase price payable by the Tong Ren Tang Group to the Group shall be not less than that charged by the Group to other independent third parties under the same condition.

The consideration for the Owned Products sold by the Group under the Renewed PRC Distribution Framework Agreement shall be settled by the Tong Ren Tang Group within three months from the date when a specific order is placed.

Implementation Agreements

Members of the Group and members of the Tong Ren Tang Group will enter into, from time to time and as necessary, separate implementation agreements for each of the specific transactions contemplated under the Renewed PRC Distribution Framework Agreement during the term thereof. Each implementation agreement will set out the details of the products supplied, and the specifications, quantities, prices and other relevant terms thereof. Any such implementation agreements will be within the ambit of the Renewed PRC Distribution Framework Agreement and the relevant annual caps, and if exceeded, the Company will comply with the relevant Listing Rules accordingly.

Historical figures and proposed annual caps

Set out below is the aggregate historical amounts received/receivable by the Group in respect of its sales of the Owned Products for the Tong Ren Tang Group's distribution to, among others, retailers or end-users in the PRC for the two years ended 31 December 2018 and six months ended 30 June 2019 as well as the previous annual caps (exclusive of value-added tax in the PRC):

| | Year ended 31 December | | | | Six months ended | Year ending 31 |
|---|------------------------|------------|-----------------|------------|------------------|-----------------|
| | 2017 | | 2018 | | 30 June 2019 | December 2019 |
| | Actual | Historical | Actual | Historical | Actual | Historical |
| | amounts | Cap | amounts | Cap | amounts | Cap |
| | (HK\$' million) | | (HK\$' million) | | (HK\$' million) | (HK\$' million) |
| | (Audited) | | (Audited) | | (Unaudited) | |
| Amounts received/receivable under the Existing PRC Distribution Framework Agreement (exclusive of value-added tax in the PRC) | 197.3 | 200.0 | 214.2 | 230.0 | 94.6 | 270.0 |

The proposed annual caps (exclusive of value-added tax in the PRC) under the Renewed PRC Distribution Framework Agreements for each of the three years ending 31 December 2020, 2021 and 2022 are set out below:

| | For the year ending 31 December | | |
|---|---------------------------------|-----------------|-----------------|
| | 2020 | 2021 | 2022 |
| | (HK\$' million) | (HK\$' million) | (HK\$' million) |
| Proposed annual caps (exclusive of value-added tax in the PRC) | 273.0 | 296.0 | 322.0 |

The proposed annual caps for the three years ending 31 December 2022 set out above are determined based on the following factors which are applicable to the Renewed PRC Distribution Framework Agreement:

- (a) the historical figures of the relevant transactions and the historical annual caps as disclosed above;
- (b) the historical transaction amounts and the year-on-year growth rate of 8.6% for the year ended 31 December 2018; and
- (c) a buffer for any unexpected increase of the sales amount, the current market condition, and for any potential appreciation in the RMB against HK\$. The buffer projection is assumed solely for determining the annual cap and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group and of the Tong Ren Tang Group.

REASONS FOR ENTERING INTO THE RENEWED PRC DISTRIBUTION FRAMEWORK AGREEMENT

The Directors believe that the Owned Products' continuous availability for sale to the members of the Tong Ren Tang Group would be in the interests of the Company and its Shareholders as well as the consumers as a whole. Other than those under the Renewed PRC Distribution Framework Agreement, the Company also entered into distributorship agreements with other PRC distributors, which are independent of and not connected with the Company and its connected persons, the terms of which are substantially the same as those under the Renewed PRC Distribution Framework Agreement.

The sale of the Owned Products to the members of the Tong Ren Tang Group would be beneficial to the development of the Group's business, whose sales network is operating under the brand of Tong Ren Tang which is targeted to gain dominant position in respect of sales of Chinese medicine and healthcare products in the PRC. The sales of the Owned Products through the network of the Tong Ren Tang Group will also add an additional protection to consumers to ensure that no fake products will be purchased by the consumers in the distribution network operated by the Tong Ren Tang Group in the PRC.

The Directors (excluding the independent non-executive Directors who will express their views after receiving advice from the independent financial adviser) are of the view that the terms of the Renewed PRC Distribution Framework Agreement (i) have been negotiated on an arm's length basis; (ii) have been conducted and will be conducted on normal commercial terms or better; (iii) are entered into in the ordinary and usual course of business of the Group; and (iv) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, there is no other continuing transaction entered into between any member of the Group and the Tong Ren Tang Holdings and its ultimate beneficial owner(s) or otherwise related, which would be, together with the transactions contemplated under the Renewed PRC Distribution Framework Agreement, aggregated under the Listing Rules.

INTERNAL CONTROL MEASURES

In order to ensure that the aforesaid pricing policies for the transactions contemplated under the Renewed PRC Distribution Framework Agreement will be adhered to, the Company will continue to adopt the following internal control measures:

- (i) the responsible person of the relevant business department of the Company shall monitor the performance of the implementation agreements and the prices of the Owned Products sold to the members of the Tong Ren Tang Group on a monthly basis (or more frequently if it is determined necessary) to ensure that the prices of the Owned Products are determined in strict accordance with the pricing policies as set out in the Renewed PRC Distribution Framework Agreement. If any revision of terms or any price adjustment is required or if any imminent or possible exceeding of the annual caps is discovered due to change of actual circumstances, the relevant business department is required to communicate to the finance department of the Company which will consider to initiate the appropriate approval process. Relevant business department shall also regularly report the actual transaction amount to the finance department of the Company;
- (ii) the finance department of the Company is responsible for monitoring, collecting, and evaluating the specific information in relation to the implementation agreements under the Renewed PRC Distribution Framework Agreement (including but not limited to the pricing terms of each specific transaction, payment arrangement and the actual transaction amount) to ensure the prices of the Owned Products charged by the Group are in compliance with the pricing policies and the aggregate transaction amount does not exceed the proposed annual caps. In particular, based on the actual transaction amount regularly reported by the relevant business department of the Company, the finance department will collect and add up the transaction amount of the continuing connected transactions. The finance department maintains a database, which is updated monthly (or more frequently if it is determined necessary), to store all the information for the Owned Products sold to the members of the Tong Ren Tang Group. Such database allows the relevant business department of the Company to keep up-to-date records of the selling prices and transaction records for the Owned Products sold to the members of the Tong Ren Tang Group. The finance department will check the information monthly (or more frequently if it is determined necessary) to ensure reasonableness of the continuing connected transactions; and
- (iii) the independent non-executive Directors and the auditor of the Company will on a regular basis be provided with (i) the Renewed PRC Distribution Framework Agreement; (ii) the agreements entered into between the Group and independent third parties for the distribution of the same type of the Owned Products; and (iii) separate implementation agreements entered into between the Group and the Tong Ren Tang Group as well as those between the Group and independent third parties in respect of distribution of the Owned Products in the PRC. The independent non-executive Directors will also review and compare the relevant payment terms, payment method and price payable under these agreements and to ensure that the transactions contemplated under the Renewed PRC Distribution Framework Agreement are conducted on normal commercial terms or better, and are fair and reasonable. The auditor of the Company will review and confirm the

transactions contemplated under the Renewed PRC Distribution Framework Agreement are conducted in accordance with the terms of the Renewed PRC Distribution Framework Agreement on an annual basis.

Taking into account of that: (i) the above methods and procedures comprise necessary components of an internal control system with designated department and responsible officer, clear approval process and monitoring system and detailed and explicit assessment criteria; and (ii) the above-mentioned review procedures against the detailed and explicit assessment criteria can ensure that the transactions will be executed in compliance with the pricing principles stipulated in the Renewed PRC Distribution Framework Agreement. The Directors (including the independent non-executive Directors) are of the view that the Company has implemented effective internal control measures, and such methods and procedures can ensure that the transactions contemplated under the Renewed PRC Distribution Framework Agreement will be conducted on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Tong Ren Tang Holdings, who directly and indirectly, holds 600,000,000 shares of the Company (representing approximately 71.67% of the issued share capital of the Company) is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Renewed PRC Distribution Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) of the proposed annual caps of the transactions contemplated under the Renewed PRC Distribution Framework Agreement exceed 5% and the proposed annual caps are more than HK\$10,000,000, the transactions contemplated thereunder are subject to reporting, announcement, circular, annual review as well as the independent shareholders' approval requirements under the Listing Rules.

Ms. Ding Yong Ling (who is the director and the deputy general manager of Tong Ren Tang Holdings), is considered to have material interests in the transactions contemplated under the Renewed PRC Distribution Framework Agreement by virtue of her positions in Tong Ren Tang Holdings and has abstained from voting on the relevant resolutions in the Board meeting to approve the transactions contemplated under the Renewed PRC Distribution Framework Agreement. Save as disclosed, there is no other Director who has a material interest in the transactions contemplated under the Renewed PRC Distribution Framework Agreement.

With the approval of the Independent Board Committee, Somerley Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Renewed PRC Distribution Framework Agreement.

A circular containing, among others, details of the Renewed PRC Distribution Framework Agreement, a letter from the Independent Board Committee and a letter from the independent financial adviser on the terms of the Renewed PRC Distribution Framework Agreement, together with a notice convening the EGM, will be despatched to the Shareholders on or before 6 December 2019.

GENERAL INFORMATION

The Company

The Company is principally engaged in manufacturing, retail and wholesale of Chinese medicine products and healthcare products and provision of Chinese medical consultation and treatments.

Tong Ren Tang Holdings

Tong Ren Tang Holdings is an investment holding company. The Tong Ren Tang Group is engaged in the processing, manufacture and sale of Chinese medicinal materials, Chinese patent medicine, Chinese medicinal decoction pieces, medical food, warehousing and transportation, etc..

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the EGM, which is expected to be convened on or around Monday, 30 December 2019 for approving the Renewed PRC Distribution Framework Agreements and the proposed annual caps contemplated thereunder, the register of members of the Company will be closed from Monday, 23 December 2019 to Monday, 30 December 2019, both dates inclusive, during which period no transfer of the Shares will be registered.

In order to be eligible to attend and vote at the EGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Hong Kong by no later than 4:30 p.m. on Friday, 20 December 2019. All persons who are registered holders of the Shares on 30 December 2019, the record date of the EGM, will be entitled to attend and vote at the EGM.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meanings set out below:

| | |
|---------------------------|---|
| “associate” | has the meaning ascribed thereto under the Listing Rules |
| “Board” | the board of Directors of the Company |
| “Company” | Beijing Tong Ren Tang Chinese Medicine Company Limited, a limited company incorporated in Hong Kong, the shares of which were listed on GEM of the Exchange on 7 May 2013 and were transferred to the Main Board of the Exchange on 29 May 2018 |
| “connected persons” | has the meaning ascribed thereto under the Listing Rules |
| “controlling shareholder” | has the meaning ascribed thereto under the Listing Rules |
| “Directors” | the directors of the Company |
| “EGM” | the extraordinary general meeting of the Company to be convened to, among other things, consider and, if thought fit, approve the Renewed PRC Distribution Framework Agreement and the proposed annual caps contemplated thereunder |

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|---|---|
| “Existing PRC Distribution Framework Agreement” | an existing framework agreement dated 14 December 2016 entered into between the Company and Tong Ren Tang Holdings, pursuant to which the Tong Ren Tang Group, as a non-exclusive distributor of the Group, would purchase the Owned Products from the Group and then distribute the same to, among others, retailers or end-users in the PRC |
| “GEM” | GEM operated by the Stock Exchange |
| “GLSPC” | Sporoderm-broken Ganoderma Lucidum Spores Powder Capsule manufactured by the Group |
| “Group” | the Company and its subsidiaries (either directly owned or indirectly owned) |
| “HK\$” | Hong Kong dollar, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | the independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Tsang Yok Sing, Jasper, Mr. Zhao Zhong Zhen and Mr. Chan Ngai Chi, formed for the purpose of advising the Independent Shareholders in respect of the terms of the Renewed PRC Distribution Framework Agreement (including the proposed annual caps) |
| “Independent Shareholders” | Shareholders other than Tong Ren Tang Holdings and its associates |
| “Listing Rules” | The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) |
| “Main Board” | the stock market operated by the Stock Exchange, which excludes, the option market and which continues to be operated by the Stock Exchange in parallel with GEM and which, for avoidance of doubt, excludes GEM |
| “Owned Products” | Chinese medicine and/or healthcare products to be researched, developed and manufactured by the Group from time to time, including the Chinese medicine and/or healthcare products containing ganoderma lucidum or ganoderma lucidum spore as raw materials to be researched, developed and manufactured by the Group (including GLSPC), but for the avoidance of doubt, excluding Angong Niu Huang Wan |
| “PRC” | the People’s Republic of China and, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |

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| “Renewed PRC Distribution Framework Agreement” | a new framework agreement dated 2 December 2019 entered into between the Company and Tong Ren Tang Holdings, pursuant to which the Tong Ren Tang Group, as a non-exclusive distributor of the Group, would continue to purchase the Owned Products from the Group and then distribute the same to, among others, retailers or end-users in the PRC |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Shareholders” | the shareholders of the Company |
| “Somerley” or “Independent Financial Adviser” | Somerley Capital Limited, a corporation licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Renewed PRC Distribution Framework Agreement (including the proposed annual caps) |
| “Stock Exchange” or “Exchange” | The Stock Exchange of Hong Kong Limited |
| “Tong Ren Tang Group” | Tong Ren Tang Holdings, its subsidiaries (either directly owned or indirectly owned), its jointly-controlled entities and its associates (other than Tong Ren Tang Technologies and its subsidiaries) |
| “Tong Ren Tang Holdings” | China Beijing Tong Ren Tang Group Co., Ltd., a state-owned enterprise established in the PRC on 17 August 1992 and is the ultimate controlling shareholder of the Company |
| “Tong Ren Tang Technologies” | Tong Ren Tang Technologies Co. Ltd., a joint stock limited company established in the PRC on 22 March 2000, the H shares of which have been listed on GEM since 2000 and have been transferred to the Main Board since July 2010, and is the immediate holding company of the Company |

By order of the Board
Beijing Tong Ren Tang
Chinese Medicine Company Limited
Ding Yong Ling
Chairman

Hong Kong, 2 December 2019

As at the date of this announcement, the Board comprises the executive directors, namely Ms. Ding Yong Ling (Chairman), Mr. Zhang Huan Ping and Ms. Lin Man; and the independent non-executive directors, namely Mr. Tsang Yok Sing, Jasper, Mr. Zhao Zhong Zhen and Mr. Chan Ngai Chi.