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

**If you have sold or transferred** all your shares in **Beijing Tong Ren Tang Chinese Medicine Company Limited**, you should at once hand this circular and the accompanying form of proxy and the reply slip to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.



**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  
AND  
NOTICE OF EGM**

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



**SOMERLEY CAPITAL LIMITED**

A letter from the Board is set out on pages 4 to 12 of this circular and a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 13 to 14 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 21 of this circular. This circular also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.tongrentangcm.com](http://www.tongrentangcm.com)).

A notice convening the EGM to be held at Room 1405–1409, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on 30 December 2019 at 9:30 a.m., is set out on pages 27 to 28 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof, and deposit it with Computershare Hong Kong Investor Services Limited, the share registrar and transfer office of the Company in Hong Kong, at 17M Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so desire.

5 December 2019

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## DEFINITION

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

“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 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”	an extraordinary general meeting of the Company to be convened at Room 1405–1409, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Monday, 30 December 2019 at 9:30 a.m., to consider and, if thought fit, approve the terms of the Renewed PRC Distribution Framework Agreement and the proposed annual caps contemplated thereunder
“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

## DEFINITION

“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 Renewed PRC Distribution Framework Agreement (including the proposed annual caps)
“Independent Shareholders”	Shareholders other than Tong Ren Tang Holdings and its associates
“Latest Practicable Date”	2 December 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“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
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules
“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 circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“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

## DEFINITION

“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong
“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 Ltd.”	Beijing Tong Ren Tang Company Limited, a joint stock limited company established in the PRC on 18 June 1997, the shares of which have been listed on the Shanghai Stock Exchange since 1997, and is the intermediate holding company 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

LETTER FROM THE BOARD



**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)**

**Directors:**

*Executive Directors:*

Ms. Ding Yong Ling (*Chairman*)

Mr. Zhang Huan Ping

Ms. Lin Man

*Independent non-executive Directors:*

Mr. Tsang Yok Sing, Jasper

Mr. Zhao Zhong Zhen

Mr. Chan Ngai Chi

**Registered Office:**

Room 1405–1409

Office Tower, Convention Plaza

1 Harbour Road

Wanchai

Hong Kong

5 December 2019

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS REGARDING  
THE RENEWED PRC DISTRIBUTION FRAMEWORK AGREEMENT  
AND  
NOTICE OF EGM**

**1. INTRODUCTION**

Reference is made to the announcement of the Company dated 2 December 2019 in relation to the Renewed PRC Distribution Framework Agreement with Tong Ren Tang Holdings.

The purpose of this circular is to provide you with, among other things, (i) further information in relation to the terms of the Renewed PRC Distribution Framework Agreement and the proposed annual caps; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice convening the EGM.

## LETTER FROM THE BOARD

### 2. 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 for a further term of three years ending 31 December 2022 to renew the PRC distribution arrangement, pursuant to which, the Tong Ren Tang Group, as a non-exclusive distributor of the Group, may continue to purchase the Owned Products from the Group and then distribute the same to, among others, retailers or end users in the PRC. The Company also resolved to obtain the proposed annual caps for the transactions contemplated under the Renewed PRC Distribution Framework Agreement for the three years ending 31 December 2022 in order to comply with the Listing Rules.

#### **The Renewed PRC Distribution Framework Agreement**

<b>Date</b>	:	2 December 2019 (after trading hours)
<b>Parties</b>	:	(1) the Company (2) Tong Ren Tang Holdings
<b>Term</b>	:	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.
<b>Major terms and conditions</b>	:	<ul style="list-style-type: none"><li>• 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.</li><li>• 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.</li></ul>

## LETTER FROM THE BOARD

**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.



# LETTER FROM THE BOARD

## 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
	2017	2018	30 June 2019		31 December 2019
	(HK\$'million)	(HK\$'million)	(HK\$'million)		(HK\$'million)
	(Audited)	(Audited)	(Unaudited)		
	Actual	Historical	Actual	Historical	Actual
	amounts	Cap	amounts	Cap	amounts
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

## LETTER FROM THE BOARD

- (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 (including the independent non-executive Directors) 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.

## LETTER FROM THE BOARD

### 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:

- (1) 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;
- (2) 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
- (3) 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

## LETTER FROM THE BOARD

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 of the Latest Practicable Date, 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.

## LETTER FROM THE BOARD

### 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..

### 3. EGM

A notice convening the EGM to be held at Room 1405–1409, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Monday, 30 December 2019 at 9:30 a.m., is set out on pages 27 to 28 of this circular at which an ordinary resolution will be proposed for the Independent Shareholders to consider and, if thought fit, to approve the terms of the Renewed PRC Distribution Framework Agreement and the proposed annual caps.

Votes on the resolution to be proposed at the EGM shall be taken by way of poll. In accordance with the Listing Rules, Tong Ren Tang Holdings and its associates shall abstain from voting on the resolution to be proposed at the EGM in relation to the Renewed PRC Distribution Framework Agreement and the respective annual cap contemplated therein. As of the Latest Practicable Date, Tong Ren Tang Holdings and its associates, who directly and indirectly, held 600,000,000 shares of the Company (representing approximately 71.67% of the total number of shares in issue of the Company), control or are entitled to control over the voting right in respect of their shares in the Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, other than Tong Ren Tang Holdings and its associates, no connected person of the Company, Shareholder and their respective associates with a material interest in the transaction contemplated under the Renewed PRC Distribution Framework Agreement is required to abstain from voting on such resolution at the EGM.

Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof, and deposit it with Computershare Hong Kong Investor Services Limited, the share registrar and transfer office of the Company in Hong Kong, at 17M Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so desire.

## LETTER FROM THE BOARD

### 4. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out in this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the terms of the Renewed PRC Distribution Framework Agreement and the proposed annual caps; and (ii) the letter from the Independent Financial Adviser set out in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Renewed PRC Distribution Framework Agreement and the principal factors and reasons taken into account by the Independent Financial Adviser in arriving at its advice.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Renewed PRC Distribution Framework Agreement (including the proposed annual caps) (a) have been negotiated on an arm's length basis; (b) will be conducted on normal commercial terms or better; (c) are entered into in the ordinary and usual course of business of the Group; and (d) are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Renewed PRC Distribution Framework Agreement (including the proposed annual caps) by way of poll.

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

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

*The following is the letter of advice from the Independent Board Committee to the Independent Shareholders in respect of the Renewed PRC Distribution Framework Agreement (including the proposed annual caps), which has been prepared for the purpose of inclusion in this circular.*



**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)**

5 December 2019

*To the Independent Shareholders*

Dear Sir or Madam,

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

We refer to a circular (the “**Circular**”) of the Company dated 5 December 2019 of which this letter forms part. Terms used in this letter have the same meaning as defined in the Circular unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to whether, in our opinion, the terms of the Renewed PRC Distribution Framework Agreement and the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered the terms of the Renewed PRC Distribution Framework Agreement and the proposed annual caps and the advice of the Independent Financial Adviser in relation to the Renewed PRC Distribution Framework Agreement and the proposed annual caps thereto as set out on pages 15 to 21 of the Circular, we are of the opinion that the terms of the Renewed PRC Distribution Framework Agreement (together with the proposed annual caps) are (i) fair and reasonable so far as the Independent Shareholders are concerned; (ii) on normal commercial terms or better and in the ordinary and usual business of the Group; and (iii) in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter of advice from the Independent Financial Adviser set out on pages 15 to 21 of the Circular. We have also considered, amongst others, the various factors contained in such letter.

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Renewed PRC Distribution Framework Agreement (including the proposed annual caps).

Yours faithfully,  
For and on behalf of  
the Independent Board Committee of  
**Beijing Tong Ren Tang**  
**Chinese Medicine Company Limited**  
**Tsang Yok Sing, Jasper    Zhao Zhong Zhen    Chan Ngai Chi**  
*Independent Non-executive Directors*



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the letter of advice from Somerley to the Independent Board Committee and the Independent Shareholders in respect of the Renewed PRC Distribution Framework Agreement (including the proposed annual caps), which has been prepared for the purpose of inclusion in this circular.*



**SOMERLEY CAPITAL LIMITED**  
20th Floor  
China Building  
29 Queen's Road Central  
Hong Kong

5 December 2019

*To: the Independent Board Committee and the Independent Shareholders of  
Beijing Tong Ren Tang Chinese Medicine Company Limited*

Dear Sirs,

### **CONTINUING CONNECTED TRANSACTION REGARDING THE RENEWED PRC DISTRIBUTION FRAMEWORK AGREEMENT**

#### **INTRODUCTION**

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the Renewed PRC Distribution Framework Agreement and the transactions contemplated thereunder together with the proposed annual caps of the transactions under the Renewed PRC Distribution Framework Agreement for each of the three years ending 31 December 2022 (the “**Annual Caps**”). Details of the Renewed PRC Distribution Framework Agreement (together with the Annual Caps) are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 5 December 2019 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context requires otherwise.

On 2 December 2019, the Company entered into the Renewed PRC Distribution Framework Agreement with Tong Ren Tang Holdings for a period from 1 January 2020 to 31 December 2022 which will become effective upon the approval of the Independent Shareholders at the EGM, pursuant to which the Tong Ren Tang Group, as a non-exclusive distributor of the Group, may continue to purchase the Owned Products from the Group and then distribute the same to, among others, retailers or end-users in the PRC.

As stated in the letter from the Board, 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.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Mr. Tsang Yok Sing, Jasper, Mr. Zhao Zhong Zhen and Mr. Chan Ngai Chi, has been formed to make recommendations to the Independent Shareholders in respect of the terms of the Renewed PRC Distribution Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps). We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in the same regard.

We are not associated with the Company, Tong Ren Tang Holdings, or their respective substantial shareholders or associates, and accordingly we are considered eligible to give independent advice on the terms of the Renewed PRC Distribution Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps). Apart from the normal professional fees payable to us in connection with this and similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company, Tong Ren Tang Holdings, or their respective substantial shareholders or associates.

During the past two years, Somerley acted as the independent financial adviser and issued an opinion letter contained in the Company's circular dated 15 November 2017 in relation to continuing connected transactions of the Group. The past engagement was limited to providing independent advisory services to the Independent Board Committee and Independent Shareholders pursuant to the Listing Rules. Under the past engagement, Somerley received normal professional fees from the Company. Notwithstanding the past engagement, as at the Latest Practicable Date, there were no relationships or interests between Somerley on one hand and the Group, the Tong Ren Tang Group, Tong Ren Tang Ltd. and Tong Ren Tang Technologies on the other hand that could reasonably be regarded as a hindrance to our independence as defined under Rule 13.84 of the Listing Rules to act as the independent financial adviser to the Independent Board Committee and Independent Shareholders in connection with the Renewed PRC Distribution Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps).

In formulating our opinion, we have reviewed, amongst others, the Renewed PRC Distribution Framework Agreement, the annual reports and interim reports of the Company and the information contained in the Circular. We have also discussed with and reviewed information provided by the management of the Group regarding the businesses of the Group, the prospects of conducting the Renewed PRC Distribution Framework Agreement and the transactions contemplated thereunder.

We have relied on the information and facts supplied, and the opinions expressed to us, by the management of the Group and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time when they were made. We have also sought and received confirmation from the Group that no

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice and recommendation with regard to the Renewed PRC Distribution Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps), we have taken into account the principal factors and reasons set out below:

#### 1. Information on 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.

#### 2. Information on Tong Ren Tang Holdings and the Tong Ren Tang Group

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..

#### 3. Reasons for the entering into of the Renewed PRC Distribution Framework Agreement

As the Existing PRC Distribution Framework Agreement will expire on 31 December 2019, the Company entered into the Renewed PRC Distribution Framework Agreement with Tong Ren Tang Holdings on 2 December 2019 for a further term of three years to renew the PRC distribution arrangement. Pursuant to the Renewed PRC Distribution Framework Agreement, the Tong Ren Tang Group, as a non-exclusive distributor of the Group, may purchase the Owned Products from the Group and then distribute the same to, among others, retailers or end users in the PRC.

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.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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.

Based on the above, we concur with the Directors' view that the entering into of the Renewed PRC Distribution Framework Agreement is in the ordinary and usual course of the business of the Company and we consider that it is in the interests of the Company and the Shareholders as a whole.

#### **4. Principal terms of the Renewed PRC Distribution Framework Agreement**

Pursuant to the Renewed PRC Distribution Framework Agreement, 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.

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, which is expected to be held on 30 December 2019. 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 with 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 with 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 shall be settled by the Tong Ren Tang Group within three months from the date when a specific order is placed.

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.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed a total of 34 sample sales contracts for the Owned Products entered into with two members of the Tong Ren Tang Group (18 samples) and independent third parties (16 samples) in 2017, 2018 and the first six months of 2019, which is considered to be a fair and representative sample given that such sales contracts are generally entered into on a monthly basis and the samples are randomly selected. It is noted that the unit price of the Owned Products sold by the Group to members of Tong Ren Tang Group was the same as that to such independent third parties within the same month. Similar to the arrangement with Tong Ren Tang Group, the Group also entered into distributorship agreements with independent third parties to govern the terms (including pricing basis and payment terms) of the individual sales contracts to be entered into from time to time. We have reviewed all the distributorship agreements entered into with independent third parties in respect of the Owned Products and noted that the payment shall be made within three months from the date of sales contracts, which is the same as those under the Renewed PRC Distribution Framework Agreement.

Having considered that (i) the terms of the Renewed PRC Distribution Framework Agreement, which are basically the same as those under the Existing PRC Distribution Framework Agreement; (ii) the unit price of the Owned Products sold to members of the Tong Ren Tang Group and the independent third party were the same; and (iii) payment terms under the Renewed PRC Distribution Framework Agreement are the same as those under those with the independent third parties, we consider that the terms of the Renewed PRC Distribution Framework Agreement are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

Given that (i) the independent non-executive Directors will, pursuant to Rule 14A.55 of the Listing Rules, review, among other things, whether the transactions contemplated under the Renewed PRC Distribution Framework Agreement are conducted on normal commercial terms; and (ii) the auditors of the Company will, for the purpose of Rule 14A.56 of the Listing Rules, review, among other things, whether the transactions contemplated under the Renewed PRC Distribution Framework Agreement are conducted in accordance with the terms of the Renewed PRC Distribution Framework Agreement, we are of the view that adequate measures have been put in place, as required under the Listing Rules mentioned above, to monitor the transactions contemplated under the Renewed PRC Distribution Framework Agreement in order to protect the interests of the Company and the Independent Shareholders.

### 5. The Annual Caps

Set out below are the proposed Annual Caps (exclusive of value-added tax in the PRC) for each of the three years ending 31 December 2022:

	<b>For the financial year ending 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
<b>Sale of the Owned Products by the Group to the Tong Ren Tang Group (exclusive of value-added tax in the PRC)</b>	<b>273</b>	<b>296</b>	<b>322</b>
<b>Year-on-year growth rate</b>	<b>—</b>	<b>8.4%</b>	<b>8.8%</b>

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the letter from the Board, the proposed Annual Caps have been determined based on, amongst others, the historical transaction amounts, the year-on-year growth rate for the year ended 31 December 2018 and the buffers. Shareholders should note that such projected sales volumes are assumed solely for determining the Annual Caps and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group and the Tong Ren Tang Group.

We have reviewed the calculation of the proposed Annual Caps for the sales of the Owned Products to the Tong Ren Tang Group for the three years ending 31 December 2022 and we understand that they have been determined based on (i) the historical sales amount for 2018 multiplied by the historical growth rate; and (ii) a buffer for each year. A summary of the actual sales of the Owned Products to the Tong Ren Tang Group for each of the years ended 31 December 2016, 2017 and 2018 as extracted from the Company's annual reports and the six months ended 30 June 2019 as provided by the Group is set out below:

	<b>For the year ended 31 December</b>			<b>For the six months ended 30 June</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
	(Audited)	(Audited)	(Audited)	(Unaudited)
<b>Sales of the Owned Products (HK\$'million)</b>	<b>151.8</b>	<b>197.3</b>	<b>214.2</b>	<b>94.6</b>
<b>Growth rate</b>	<b>—</b>	<b>30.0%</b>	<b>8.6%</b>	<b>—</b>

As shown in the above table, the sales of the Owned Products to the Tong Ren Tang Group has experienced a slowdown in 2018 registering a year-on-year increase of 8.6% as compared to 30.0% in 2017. As advised by the management of the Group, due to focus on strengthening internal management and implementation of rectifications by the Tong Ren Tang Group in 2019, the Tong Ren Tang Group has slowed down its purchase of the Owned Products from the Group in 2019 and it is therefore considered not appropriate to base on the actual six-month sales amount of the Owned Products in 2019 to project the annual cap for 2020. The management of the Group believes that the sales of the Owned Products to the Tong Ren Tang Group will resume its uptrend in 2020. On this basis, the historical sales amount in 2018 is considered useful to project the Annual Caps for 2020–2022.

We understand from the management of the Group that reference has been made to the historical sales amount in 2018 and the relevant year-on-year growth rate of 8.6% in 2018 (the “**2018 Sales Growth Rate**”) when the Tong Ren Tang Group was under normal operation. According to the National Bureau of Statistics of China, the consumption of pharmaceutical and health products per capita increased from RMB1,045 in 2014 to RMB1,685 in 2018, representing a compound annual growth rate of 12.7% (the “**Market Growth Rate**”). The management of the Group has projected the sales amount for 2020–2022 based on the historical amount in 2018 multiplied by the 2018 Sales Growth Rate of 8.6% each year, which is considered prudent when compared with the Market Growth Rate, on the assumption that the



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

sales of the Owned Products to the Tong Ren Tang Group would grow at the 2018 Sales Growth Rate from 2019–2022 without any business disruption as mentioned above. A buffer of 8% has been built in for each of 2020–2022 for any possible unexpected increase of the sales amount and any potential appreciation in RMB against HK\$.

Given that the Annual Caps have been arrived at based on (i) the historical sales amount in 2018 and the 2018 Sales Growth Rate when the Tong Ren Tang Group was under normal operation; and (ii) a buffer of 8% to facilitate smooth operations of the Group, we are of the view that the Annual Caps are fair and reasonable so far as the Company and the Independent Shareholders are concerned.

### OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the Renewed PRC Distribution Framework Agreement is in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Renewed PRC Distribution Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps) are on normal commercial terms and fair and reasonable as far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders, to vote in favor of the ordinary resolution to be proposed at the EGM in relation to the Renewed PRC Distribution Framework Agreement and the transactions contemplated thereunder (together with the Annual Caps).

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**  
**Jenny Leung**  
*Director*

*Ms. Jenny Leung is a licensed person and responsible officer of Somerley Capital Limited registered with the Securities and Futures Commission to carry out type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong.*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### (i) Directors and Chief Executive of the Company

As at Latest Practicable Date, the interest and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) of the Directors and chief executive of the Company which would have to be notified to the Company pursuant to Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code contained in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

#### *Long position in shares*

	Types of interests	Capacity	Number of shares	Approximate percentage of issued share capital
Ding Yong Ling	Personal	Beneficial owner	350,000	0.041%
Lin Man	Personal	Beneficial owner	250,000	0.029%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 of the Listing Rules.



**(ii) Substantial Shareholders**

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the interest of the persons, other than Directors or chief executive of the Company, in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO, or otherwise notified to the Company were as follows:

*Long position in shares*

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>Approximate percentage of issued share capital</b>
Tong Ren Tang Technologies	Beneficial owner	318,540,000	38.05%
Tong Ren Tang Ltd. <sup>(1)</sup>	Beneficial owner	281,460,000	33.62%
	Interest of a controlled corporation	318,540,000	38.05%
Tong Ren Tang Holdings <sup>(2)</sup>	Interest of a controlled corporation	600,000,000	71.67%

*Notes:*

- (1) Tong Ren Tang Ltd. directly holds 46.85% of the issued share capital of Tong Ren Tang Technologies. Accordingly, Tong Ren Tang Ltd. is deemed to be interested in 318,540,000 shares of the Company held by Tong Ren Tang Technologies.
- (2) Tong Ren Tang Holdings directly holds 52.45% of the issued share capital of Tong Ren Tang Ltd. which in turn directly holds 46.85% of the issued share capital of Tong Ren Tang Technologies. Tong Ren Tang Holdings also directly holds 0.74% of the issued share capital of Tong Ren Tang Technologies. Accordingly, Tong Ren Tang Holdings is deemed to be interested in 318,540,000 shares of the Company and 281,460,000 shares of the Company held by Tong Ren Tang Technologies and Tong Ren Tang Ltd., respectively.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### 3. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

### 4. INTERESTS OF CONTROLLING SHAREHOLDERS IN COMPETING BUSINESS

To ensure that the business classification between the Company, Tong Ren Tang Ltd., Tong Ren Tang Technologies and Tong Ren Tang Holdings (collectively the “**Controlling Shareholders**”) are properly documented and established, each of the Controlling Shareholders entered into a deed of non-competition in favour of the Company on 18 April 2013 (“**Deed of Non-competition**”), details of which are set out in the prospectus of the Company dated 25 April 2013, mainly to the effect that at any time until their collective beneficial interest in the equity interest in the Company is less than 30%, each of them shall not, and shall procure their respective subsidiaries (except through its interests in the Group) not to, without prior written consent of the Company, directly or indirectly:

- (i) engage in the research, development, manufacture and sale of any products containing ganoderma lucidum or ganoderma lucidum spores as raw materials in markets outside of the PRC (the “**Non-PRC Markets**”);
- (ii) engage in the research, development, manufacture and sale of any products with “Tong Ren Tang” brands in Non-PRC Markets, except for the manufacture of the Chinese medicine products for the two independent third parties in Japan; for the avoidance of doubt and without prejudice to the generality of the Deed of Non-competition, except for the current excluded business in Japan, engage in arrangement with any other parties in the Non-PRC Markets similar to the excluded business in Japan;
- (iii) carry out any sales or registration (new or renewal) for Angong Niuhuang Wan in Non-PRC markets;
- (iv) engage in the distribution of any Chinese medicine products in Non-PRC Markets, except for certain existing arrangements as disclosed in the prospectus of the Company; and
- (v) carry out any new overseas registration of “Tong Ren Tang” branded products, ((i) to (v) are collectively known as “**Restricted Business**”).

In addition, under the Deed of Non-competition, each of the Controlling Shareholders has also undertaken that if each of them and/or any of its associates is offered or becomes aware of any project or new business opportunity (“**New Business Opportunity**”) that relates to the Restricted Business, whether directly or indirectly, it shall (i) promptly and in any event not later than seven days notify the Company in writing of such opportunity and provide such information as is reasonably required by the Company in order to enable the Company to come to an informed assessment of such opportunity; and (ii) use its best endeavours to procure that

such opportunity is offered to the Company on terms no less favourable than the terms on which such opportunity is offered to it and/or its associates. The Directors (including the independent non-executive Directors) will review the New Business Opportunity and decide whether to invest in the New Business Opportunity within thirty (30) business days of receipt of notice from Controlling Shareholders.

Tong Ren Tang Holdings has also granted the Company rights of first refusal to acquire its interest in Beijing Tong Ren Tang Hong Kong Medicine Management Limited, Beijing Tong Ren Tang (UK) Limited and Beijing Tong Ren Tang Tai Fong Co., Ltd. on terms which are not less favorable than the terms it wishes to sell to other parties.

In this connection, the Group adopted the following corporate governance measures to manage any potential conflicts of interest arising from any future potential competing business and to safeguard the interests of the shareholders of the Company:

- (i) the independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the Deed of Non-competition by the Controlling Shareholders; and
- (ii) the Company will disclose the review by the independent non-executive Director with basis on the compliance with and enforcement of the terms of the Deed of Non-competition in its annual report.

## **5. INTERESTS OF DIRECTORS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors nor their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group (which would be required to be disclosed under Rule 8.10 of the Listing Rules).

## **6. DIRECTORS' INTEREST IN ASSETS OR CONTRACTS**

As at the Latest Practicable Date, none of the Directors was not interested, directly or indirectly, in any assets which had since 31 December 2018, the date to which the latest audited financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group. None of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

## **7. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## 8. EXPERT'S QUALIFICATION AND CONSENT

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context (including the date) in which it appears.

The following is the qualification of Somerley who has given its opinions or advices which are contained in this circular:

Name	Qualification
Somerley	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the SFO.

## 9. EXPERT'S INTERESTS

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

As at the Latest Practicable Date, Somerley was not interested, directly or indirectly, in any assets which had since 31 December 2018, the date to which the latest audited financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group.

## 10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the registered office of the Company in Hong Kong at Room 1405–1409, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and the date of the EGM:

- (a) the letter from Somerley as set out in pages 15 to 21 in this circular;
- (b) the written consent of Somerley referred to in this Appendix; and
- (c) the Renewed PRC Distribution Framework Agreement.

## NOTICE OF EGM



**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)

### NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting (“EGM”) of Beijing Tong Ren Tang Chinese Medicine Company Limited (the “**Company**”) will be held at 9:30 a.m. on Monday, 30 December 2019 at Room 1405–1409, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution:

#### AS AN ORDINARY RESOLUTION

“**THAT**, the distribution framework agreement dated 2 December 2019 (the “**Renewed PRC Distribution Framework Agreement**”) entered into between the Company and China Beijing Tong Ren Tang (Holdings) Corporation, and the proposed annual caps for the three years ending 31 December 2022 for the transactions contemplated thereunder are hereby approved, ratified and confirmed; and **THAT** any one director of the Company be and is hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the Renewed PRC Distribution Framework Agreement and completing the transactions contemplated thereunder with such changes as he/she may consider necessary, desirable or expedient.”

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

Hong Kong, 5 December 2019

*Notes:*

- (i) Shareholders entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote on his/her/its behalf. A proxy need not be a shareholder of the Company.
- (ii) In order to be valid, the proxy form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of such power or authority), must be delivered to the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof.

## NOTICE OF EGM

- (iii) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the EGM and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (iv) If a shareholder appoints more than one proxy, such proxies shall only exercise their voting rights by a poll.
- (v) For the purpose to determine the entitlements of the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Monday, 23 December 2019 to Monday, 30 December 2019 (both days inclusive), during which period no transfer of shares of the Company will be registered. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 20 December 2019.

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