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BEIJING TONG REN TANG CHINESE MEDICINE COMPANY LIMITED

北京同仁堂国药有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 3613)

**CONTINUING CONNECTED TRANSACTIONS
REGARDING
THE TRT TECH PRC DISTRIBUTION FRAMEWORK AGREEMENT**

THE TRT TECH PRC DISTRIBUTION FRAMEWORK AGREEMENT

The Board announces that, on 13 May 2020, the Company and Tong Ren Tang Technologies entered into the TRT Tech PRC Distribution Framework Agreement, pursuant to which, Tong Ren Tang Technologies Group, as a non-exclusive distributor of the Group, would purchase the Relevant Products from the Group and then sell the same to, among others, distributors, retailers or end users in the PRC or for the purpose of production for a period from 13 May 2020 to 31 December 2022.

LISTING RULES IMPLICATIONS

Tong Ren Tang Technologies is a controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the TRT Tech 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 TRT Tech PRC Distribution Framework Agreement exceed 0.1% but less than 5%, the transactions contemplated thereunder are subject to reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirements under the Listing Rules.

The transactions contemplated under the TRT Tech PRC Distribution Framework Agreement entered into between the Company and Tong Ren Tang Technologies and the transactions contemplated under the Renewed PRC Distribution Framework Agreement dated 2 December 2019 entered into between the Company and Tong Ren Tang Holdings are related because (i)

Tong Ren Tang Technologies and Tong Ren Tang Holdings are connected with each other, and both of them are connected persons of the Company; and (ii) the transactions are of similar nature. As the transactions under the Renewed PRC Distribution Framework Agreement were non-exempt continuing connected transactions and the Company had complied with reporting, announcement, circular, as well as the independent shareholders' approval requirements under the Listing Rules, the transactions under the TRT Tech PRC Distribution Framework Agreement are only subject to reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirements under the Listing Rules.

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The TRT Tech PRC Distribution Framework Agreement

- Date** : 13 May 2020 (after trading hours)
- Parties** : (1) the Company
(2) Tong Ren Tang Technologies
- Term** : The TRT Tech PRC Distribution Framework Agreement shall be for a period from 13 May 2020 to 31 December 2022 (both days inclusive).
- Major terms and conditions** :
 - The Company agreed that the Tong Ren Tang Technologies Group acting as the non-exclusive distributor of the Group, may purchase the Relevant Products from the Group and may sell the same to, among others, distributors, retailers or end-users in the PRC or for the purpose of production.
 - Details and the quantities of such Relevant 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 TRT Tech PRC Distribution Framework Agreement.
- Pricing policy** : Price for the Relevant 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 price and supply terms of the Relevant Products provided by the Group to Tong Ren Tang Technologies Group shall be comparable to those provided by the Group to other independent third parties under the same condition.

The consideration for the Relevant Products sold by the Group under the TRT Tech PRC Distribution Framework Agreement shall be settled by the Tong Ren Tang Technologies 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 Technologies Group will enter into, from time to time and as necessary, separate implementation agreements for each of the specific transactions contemplated under the TRT Tech 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 TRT Tech PRC Distribution Framework Agreement and the relevant annual caps, and if exceeded, the Company will comply with the relevant Listing Rules accordingly.

Proposed annual caps

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

	For the period ending 31 December 2020 (HK\$' million)	For the year ending 31 December	
		2021 (HK\$' million)	2022 (HK\$' million)
Proposed annual caps (exclusive of value-added tax in the PRC)	50.0	57.0	65.0

The proposed annual caps set out above are determined based on the following factors which are applicable to the TRT Tech PRC Distribution Framework Agreement:

- current wholesale prices between the Company and Tong Ren Tang Group under the Renewed PRC Distribution Framework Agreement;
- the current wholesale prices between the Company and other third party distributors;
- the public sale price of the Relevant Products in the PRC market;

- (d) the projected orders of the Relevant Products indicated by the Tong Ren Tang Technologies Group for the period ending 31 December 2020 and two years ending 31 December 2022; and
- (e) 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 Technologies Group

REASONS FOR ENTERING INTO THE TRT TECH PRC DISTRIBUTION FRAMEWORK AGREEMENT

In addition to the sale of Owned Products to Tong Ren Tang Group, the Directors believe that the Relevant Products' availability for sale to the members of the Tong Ren Tang Technologies Group would be in the interests of the Company and its Shareholders as well as the consumers as a whole and the Group could broaden the distribution channel through the sale network in the PRC. Other than those under the TRT Tech 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 TRT Tech PRC Distribution Framework Agreement.

The sale of the Relevant Products to the members of the Tong Ren Tang Technologies 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 products and healthcare products in the PRC. The sales of the Relevant Products through the network of the Tong Ren Tang Technologies 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 Technologies Group in the PRC.

The Directors (including the independent non-executive Directors) are of the view that the terms of the TRT Tech 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.

INTERNAL CONTROL MEASURES

In order to ensure that the aforesaid pricing policies for the transactions contemplated under the TRT Tech 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 Relevant Products sold to the members of the Tong Ren Tang Technologies Group on a monthly basis (or more frequently if it is determined necessary) to ensure that the prices of the Relevant Products are determined in strict accordance with the pricing policies as set out in the TRT Tech 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 and the compliance 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 TRT Tech 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 Relevant 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 Relevant Products sold to the members of the Tong Ren Tang Technologies 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 Relevant Products sold to the members of the Tong Ren Tang Technologies 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 TRT Tech 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 Relevant Products; and (iii) separate implementation agreements entered into between the Group and the Tong Ren Tang Technologies Group as well as those between the Group and independent third parties in respect of distribution of the Relevant 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 TRT Tech 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 TRT Tech PRC Distribution Framework Agreement are conducted in accordance with the terms of the TRT Tech 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 TRT Tech 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 TRT Tech 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 Technologies, directly holds 318,540,000 shares of the Company (representing approximately 38.05% of the issued share capital of the Company) is a controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the TRT Tech 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 TRT Tech PRC Distribution Framework Agreement exceed 0.1% but less than 5%, the transactions contemplated thereunder are subject to reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirements under the Listing Rules.

The transactions contemplated under the TRT Tech PRC Distribution Framework Agreement entered into between the Company and Tong Ren Tang Technologies and the transactions contemplated under the Renewed PRC Distribution Framework Agreement dated 2 December 2019 entered into between the Company and Tong Ren Tang Holdings are related because (i) Tong Ren Tang Technologies and Tong Ren Tang Holdings are connected with each other, and both of them are connected persons of the Company; and (ii) the transactions are of similar nature. As the transactions under the Renewed PRC Distribution Framework Agreement were non-exempt continuing connected transactions and the Company had complied with reporting, announcement, circular, as well as the independent shareholders' approval requirements under the Listing Rules, the transactions under the TRT Tech PRC Distribution Framework Agreement are only subject to reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirements under the Listing Rules.

Save as disclosed above, 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 Technologies and its ultimate beneficial owner(s) or otherwise related, which would be, together with the transactions contemplated under the TRT Tech PRC Distribution Framework Agreement, aggregated 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 TRT Tech 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 TRT Tech PRC Distribution Framework Agreement. Save as disclosed, there is no other Director who has a material interest in the transactions contemplated under the TRT Tech PRC Distribution Framework Agreement.

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 Technologies

Tong Ren Tang Technologies is principally engaged in the manufacturing and sale of Chinese medicines.

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
“GEM”	GEM operated by the Stock Exchange
“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
“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 Sporoderm-broken Ganoderma Lucidum Spores Powder Capsule made by the Group), 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
“Relevant Products”	Chinese medicine products and healthcare products, including Owned Products
“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 purchase the Owned Products from the Group. The transactions contemplated thereunder have been approved by independent Shareholders on the extraordinary general meeting of the Company held on 30 December 2019
“TRT Tech PRC Distribution Framework Agreement”	a framework agreement dated 13 May 2020 entered into between the Company and Tong Ren Tang Technologies, pursuant to which the Tong Ren Tang Technologies Group, as a non-exclusive distributor of the Group, would purchase the Relevant Products from the Group
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company
“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

“Tong Ren Tang
Technologies Group”

Tong Ren Tang Technologies, and its subsidiaries (either directly
owned or indirectly owned, other than the Group)

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

Hong Kong, 13 May 2020

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; the non-executive director, namely Mr. Chen Fei; and the independent non-executive directors, namely Mr. Tsang Yok Sing, Jasper, Mr. Zhao Zhong Zhen and Mr. Chan Ngai Chi.