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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)

**ANNOUNCEMENT
CONTINUING CONNECTED TRANSACTION
REGARDING REVISION OF ANNUAL CAPS UNDER THE EXISTING PRC
DISTRIBUTION FRAMEWORK AGREEMENT**

**REVISION OF ANNUAL CAPS UNDER THE EXISTING PRC DISTRIBUTION
FRAMEWORK AGREEMENT**

Reference is made to the announcement of the Company dated 2 December 2019 and the circular dated 5 December 2019 in relation to, inter alia, the transaction contemplated under the Existing PRC Distribution Framework Agreement and the respective annual caps for the three years ending 31 December 2022.

As the market demand for the Owned Products in the PRC exceeds the original projection, the aggregate amounts of the Owned Products procured by the Tong Ren Tang Group from the Group under the Existing PRC Distribution Framework Agreement for the year ending 31 December 2020 is expected to exceed the original annual cap. With the continuous business development of the Group and market demand for the Owned Products in the PRC, the Board has decided to revise the corresponding annual caps under the Existing PRC Distribution Framework Agreement. Except for the annual caps, all other terms of the Existing PRC Distribution Framework Agreement remain unchanged.

LISTING RULES IMPLICATIONS

Pursuant to the Listing Rules, if the Company proposed to revise the annual caps for continuing connected transaction, the Company will be required to re-comply with the requirements under Rule 14A.54 of the Listing Rules.

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. As one or more of the applicable percentage ratios (other than the profits ratio) of the revised annual caps of the transactions contemplated under the Existing PRC Distribution Framework Agreement exceed 5% and the revised 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 Chapter 14A of the Listing Rules.

The transactions contemplated under the Existing PRC Distribution Framework Agreement entered into between the Company and Tong Ren Tang Holdings and the transactions contemplated under the TRT Tech PRC Distribution Framework Agreement dated 13 May 2020 entered into between the Company and Tong Ren Tang Technologies are related because (i) Tong Ren Tang Holdings and Tong Ren Tang Technologies are connected with each other, and both of them are connected persons of the Company; and (ii) the transactions are of similar nature. Therefore, the Existing PRC Distribution Framework Agreement and the TRT Tech PRC Distribution Framework Agreement are aggregated in accordance with Rule 14A.81 of the Listing Rules.

With the approval of the Independent Board Committee, Somerley has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the revision of the annual caps under the Existing PRC Distribution Framework Agreement.

A circular containing, among others, details of the revised annual caps under the Existing PRC Distribution Framework Agreement, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser, together with a notice convening the EGM, will be despatched to the Shareholders on or before 27 November 2020.

Reference is made to the announcement of the Company dated 2 December 2019 and the circular dated 5 December 2019 in relation to, inter alia, the transactions contemplated under the Existing PRC Distribution Framework Agreement and the respective annual caps for the three years ending 31 December 2022.

As the market demand for the Owned Products in the PRC exceeds the original projection, the aggregate amounts of the Owned Products procured by the Tong Ren Tang Group from the Group under the Existing PRC Distribution Framework Agreement for the year ending 31 December 2020 is expected to exceed the original annual cap. With the continuous business development of the Group and market demand for the Owned Products in the PRC, the Board has decided to revise the corresponding annual caps under the Existing PRC Distribution Framework Agreement. Except for the annual caps, all other terms of the Existing PRC Distribution Framework Agreement remain unchanged.

HISTORICAL FIGURES AND REVISION OF THE 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 three years ended 31 December 2019 and nine months ended 30 September 2020 as well as the previous annual caps (exclusive of value-added tax in the PRC):

	For the year ended 31 December						Nine months ended 30 September 2020	For the year ending 31 December 2020
	2017		2018		2019			
	(HK\$' million) (Audited)		(HK\$' million) (Audited)		(HK\$' million) (Audited)		(HK\$' million) (unaudited)	(HK\$' million)
	Actual amounts	Historical Cap	Actual amounts	Historical Cap	Actual amounts	Historical Cap	Actual amounts	Historical Cap
Actual amounts received/ receivable and historical caps under the Previous PRC Distribution Framework Agreement (exclusive of value-added tax in the PRC) or the Existing PRC Distribution Framework Agreement (exclusive of value-added tax in the PRC)	197.3	200.0	214.2	230.0	204.0	270.0	183.6	273.0

The table below sets out the original annual caps (exclusive of value-added tax in the PRC) and the revised annual caps (exclusive of value-added tax in the PRC) under the Existing PRC Distribution Framework Agreement, respectively.

	For the year ending 31 December		
	2020 <i>(HK\$' million)</i>	2021 <i>(HK\$' million)</i>	2022 <i>(HK\$' million)</i>
Original annual caps (exclusive of value-added tax in the PRC) under the Existing PRC Distribution Framework Agreement	273.0	296.0	322.0
Revised annual caps (exclusive of value-added tax in the PRC) under the Existing PRC Distribution Framework Agreement	363.0	430.0	470.0

Save for the revised annual caps set out above, all other terms of the Existing PRC Distribution Framework Agreement remain unchanged.

The above revised annual caps for the three years ending 31 December 2022 are determined based on the following factors:

- (a) the unaudited actual transaction amount (exclusive of valued-added tax in the PRC) under the Existing PRC Distribution Framework Agreement of approximately HK\$183.6 million for the nine months ended 30 September 2020;
- (b) the purchase orders placed by the Tong Ren Tang Group in October 2020 and the projected sales for the two months ending 31 December 2020 under the Existing PRC Distribution Framework Agreement;
- (c) the expected improving market conditions and the continuous increase in demand for the Owned Products in the PRC; and
- (d) a buffer for any unexpected increase in the volume amount, as a result of any unexpected increase in market demand for the Owned Products, or a change in exchange rate.

REASONS AND BENEFITS FOR THE REVISION OF ANNUAL CAPS

As disclosed above, the reasons for revising the annual caps under the Existing PRC Distribution Framework Agreement is due to strong market demand for the Owned Products in the PRC which exceeds the original projection, and the amount of Owned Products procured by Tong Ren Tang Group from the Group under the Existing PRC Distribution Framework Agreement is expected to exceed the original annual caps during the remaining term of the Existing PRC Distribution Framework Agreement. The Directors believe that the revision of the annual caps 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.

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 revised annual caps under the Existing 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.

LISTING RULES IMPLICATIONS

Pursuant to the Listing Rules, if the Company proposed to revise the annual caps for continuing connected transaction, the Company will be required to re-comply with the requirements under Rule 14A.54 of the Listing Rules.

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. As one or more of the applicable percentage ratios (other than the profits ratio) of the revised annual caps of the transactions contemplated under the Existing PRC Distribution Framework Agreement exceed 5% and the revised 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 Chapter 14A of the Listing Rules.

The transactions contemplated under the Existing PRC Distribution Framework Agreement entered into between the Company and Tong Ren Tang Holdings and the transactions contemplated under the TRT Tech PRC Distribution Framework Agreement dated 13 May 2020 entered into between the Company and Tong Ren Tang Technologies are related because (i) Tong Ren Tang Holdings and Tong Ren Tang Technologies are connected with each other, and both of them are connected persons of the Company; and (ii) the transactions are of similar nature. Therefore, the Existing PRC Distribution Framework Agreement and the TRT Tech PRC Distribution Framework Agreement are aggregated in accordance with Rule 14A.81 of 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 Existing 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 Existing PRC Distribution Framework Agreement. Save as disclosed, there is no other Director who has a material interest in the transactions contemplated under the Existing PRC Distribution Framework Agreement.

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

A circular containing, among others, details of the revised annual caps under the Existing PRC Distribution Framework Agreement, a letter from the Independent Board Committee and a letter from the Independent Financial Adviser, together with a notice convening the EGM, will be despatched to the Shareholders on or before 27 November 2020.

INTERNAL CONTROL MEASURES

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

- (1) 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 Existing 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 Existing PRC Distribution Framework Agreement (including but not limited to the pricing terms of each specific transaction, payment arrangement and the actual transaction amount) on a regular basis 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 Existing 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 Existing 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 Existing PRC Distribution Framework Agreement are conducted in accordance with the terms of the Existing 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 Existing 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 Existing PRC Distribution Framework Agreement will be conducted on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

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 treatment.

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..

DEFINITIONS

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

“associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“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 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 revised annual caps contemplated thereunder the Existing PRC Distribution Framework Agreement
“Existing PRC Distribution Framework Agreement”	the existing 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
“GEM”	GEM operated by the Stock Exchange
“GLSPC”	Sporoderm-broken Ganoderma Lucidum Spores Powder Capsule manufactured by the Group
“Group”	the Company, its subsidiaries (either directly owned or indirectly owned) and its associates
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“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 revised annual caps under the Existing PRC Distribution Framework Agreement
“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 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
“Previous PRC Distribution Framework Agreement”	the previous 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
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the holder(s) of the Shares
“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 revised annual caps under the Existing PRC Distribution Framework Agreement
“Stock 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, its subsidiaries (either directly owned or indirectly owned) and its associates (other than the Group)
“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 Chinese medicine products and healthcare products, (including Owned Products) from the Group, details of which are set out in the announcement dated 13 May 2020

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

Hong Kong, 6 November 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.