

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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 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)**

**(1) CONTINUING CONNECTED TRANSACTIONS REGARDING  
RENEWAL OF THE EXCLUSIVE DISTRIBUTORSHIP  
FRAMEWORK AGREEMENTS;  
(2) CONTINUING CONNECTED TRANSACTIONS REGARDING  
REVISION OF ANNUAL CAPS UNDER THE EXISTING PRC  
DISTRIBUTION FRAMEWORK AGREEMENT;  
AND  
(3) 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 7 to 24 of this circular and a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 25 to 26 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 27 to 41 of this circular. This circular is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([cm.tongrentang.com](http://cm.tongrentang.com)).

A notice convening the EGM to be held at Room 1405-1409, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Thursday, 17 December 2020 at 10:30 a.m., is set out on pages 47 to 48 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 Centre, 183 Queen's Road East, Wan Chai, 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.

This circular, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The directors of the Company, 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, and all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

**PRECAUTIONARY MEASURES FOR THE EGM**

To safeguard the health and safety of Shareholders and to prevent the spreading of Coronavirus Disease 2019 (COVID-19), the following precautionary measures will be implemented by the Company at the EGM:

- Compulsory temperature checks
- Submission of Health Declaration Form
- Compulsory wearing of surgical face masks (please bring your own)
- No provision of refreshments and corporate gifts

Attendees who do not comply with the above precautionary measures or is subject to any Hong Kong Government prescribed quarantine may be denied entry to the EGM venue, at the absolute discretion of the Company as permitted by law.

For the health and safety of the Shareholders, the Company would like to encourage the Shareholders to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy instead of attending the EGM in person. Completion and return of the proxy form will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof should they subsequently so wish.

27 November 2020

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## **PRECAUTIONARY MEASURES FOR THE EGM**

To safeguard the health and safety of Shareholders and to prevent the spreading of Coronavirus Disease 2019 (COVID-19), the following precautionary measures will be implemented by the Company at the EGM:

- Compulsory body temperature checks will be conducted on every attending Shareholder, proxy and other attendees at the entrance of the EGM venue. Any person found to be suffering from a fever or otherwise unwell will be denied entry into the EGM venue or be required to leave the EGM venue.
- All attending Shareholders, proxies and other attendees are required to complete and submit at the entrance of the EGM venue a declaration form confirming their names and contact details, and be asked whether (a) they have travelled to, or to their best of knowledge had close contact with any person who has recently travelled to, areas outside of Hong Kong at any time in the preceding 14 days of the EGM; and (b) they are subject to any compulsory quarantine prescribed by the Hong Kong Government. Any person who responds affirmatively to any one of the above questions will be denied entry into the EGM venue or be required to leave the EGM venue.
- All attendees are requested to wear surgical face masks at the EGM venue at all times, and to maintain a safe distance with other attendees. Please note that no masks will be provided at the EGM venue and attendees should bring and wear their own masks.
- No refreshments and corporate gifts will be provided by the Company.

Attendees who do not comply with the precautionary measures above or is subject to any Hong Kong Government prescribed quarantine may be denied entry to the meeting venue, at the absolute discretion of the Company as permitted by law.

For the health and safety of the Shareholders, the Company would like to encourage the Shareholders to exercise their right to vote at the EGM by appointing the Chairman of the EGM as their proxy instead of attending the EGM in person. Completion and return of the proxy form will not preclude the Shareholders from attending and voting in person at the EGM or any adjournment thereof should they subsequently so wish.

## DEFINITION

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

“associates”	has the meaning ascribed 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”	an extraordinary general meeting of the Company to be convened on Thursday, 17 December 2020 at 10:30 a.m., to consider and, if thought fit, approve, among other things, the New Exclusive Distributorship Framework Agreements and the new annual caps contemplated thereunder, and the revised annual caps contemplated thereunder the Existing PRC Distribution Framework Agreement
“Existing Exclusive Distributorship Framework Agreements”	collectively, the Existing TRT Ltd. Exclusive Distributorship Framework Agreement and the Existing TRT Tech Exclusive Distributorship 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
“Existing TRT Ltd. Exclusive Distributorship Framework Agreement”	the exclusive distributorship framework agreement dated 8 November 2017 entered into between the Company and Tong Ren Tang Ltd. in relation to the distribution of the Relevant Products of the Tong Ren Tang Ltd. Group in markets outside PRC

## DEFINITION

“Existing TRT Tech Exclusive Distributorship Framework Agreement”	the exclusive distributorship framework agreement dated 8 November 2017 entered into between the Company and Tong Ren Tang Technologies in relation to the distribution of the Relevant Products of the Tong Ren Tang Technologies Group in markets outside 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
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Tsang Yok Sing, Jasper, Mr. Zhao Zhong Zhen and Mr. Chan Ngai Chi, formed for the purpose of advising the Independent Shareholders in respect of the New Exclusive Distributorship Framework Agreements (including the new annual caps), and the Existing PRC Distribution Framework Agreement (including the revised annual caps)
“Independent Shareholders”	Shareholders other than the Parent Group
“Latest Practicable Date”	23 November 2020, 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 exclude, the option market and which continues to be operated by the Stock Exchange in parallel with GEM and which, for the avoidance of doubt, excludes GEM
“New Exclusive Distributorship Framework Agreements”	collectively, the New TRT Tech Exclusive Distributorship Framework Agreement and the New TRT Ltd. Exclusive Distributorship Framework Agreement

## DEFINITION

“New TRT Ltd. Exclusive Distributorship Framework Agreement”	the exclusive distributorship framework agreement dated 6 November 2020 entered into between the Company and Tong Ren Tang Ltd. in relation to the distribution of the Relevant Products of the Tong Ren Tang Ltd. Group in markets outside PRC
“New TRT Tech Exclusive Distributorship Framework Agreement”	the exclusive distributorship framework agreement dated 6 November 2020 entered into between the Company and Tong Ren Tang Technologies in relation to the distribution of the Relevant Products of the Tong Ren Tang Technologies Group in markets outside PRC
“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
“Parent Group”	Tong Ren Tang Holdings, Tong Ren Tang Ltd., Tong Ren Tang Technologies and their respective associates (excluding the Group)
“PRC”	the People’s Republic of China and, for the purpose of this circular, 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
“Relevant Products”	the “Tong Ren Tang” branded products and/or Chinese medicine products supplied by the Tong Ren Tang Ltd. Group or the Tong Ren Tang Technologies Group to TRT International Natural-Pharm under the New Exclusive Distributorship Framework Agreements for the purpose of the distribution or production in the markets outside PRC
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong

## DEFINITION

“Shareholder(s)”	the shareholder(s) 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 New Exclusive Distributorship Framework Agreements (including the new annual caps) and 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 Ltd.”	Beijing Tong Ren Tang Company Limited (北京同仁堂股份有限公司), 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 (stock code: 600085.SH), and is the intermediate holding company of the Company
“Tong Ren Tang Ltd. Group”	Tong Ren Tang Ltd., its subsidiaries (either directly owned or indirectly owned) and its associates (other than the Tong Ren Tang Technologies Group and the Group)
“Tong Ren Tang Technologies”	Tong Ren Tang Technologies Co. Ltd. (北京同仁堂科技發展股份有限公司), 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 (stock code: 1666), 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)

## DEFINITION

“TRT International Natural-Pharm”	Beijing Tong Ren Tang International Natural-Pharm Co., Ltd., a company incorporated in the PRC with limited liability on 6 March 2006 and a wholly-owned subsidiary of the Company
“TRT Ltd. Continuing Connected Transactions”	the continuing connected transactions which have been and will continue to be entered into between the Group and the Tong Ren Tang Ltd. Group, details of which are set out in the paragraph headed “2. The New Exclusive Distributorship Framework Agreements — (ii) The New TRT Ltd. Exclusive Distributorship Framework Agreement” in the Letter from the Board of this circular
“TRT Tech Continuing Connected Transactions”	the continuing connected transactions which have been and will continue to be entered into between the Group and the Tong Ren Tang Technologies Group, details of which are set out in the paragraph headed “2. The New Exclusive Distributorship Framework Agreements — (i) The New TRT Tech Exclusive Distributorship Framework Agreement” in the Letter from the Board of this circular
“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 Owned Products from the Group, details of which are set out in the announcement dated 13 May 2020

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)**

*Executive Directors:*

Ms. Ding Yong Ling (*Chairman*)  
Mr. Zhang Huan Ping  
Ms. Lin Man

*Registered Office:*

Room 1405–1409  
Office Tower, Convention Plaza  
1 Harbour Road  
Wanchai, Hong Kong

*Non-executive Director:*

Mr. Chen Fei

*Independent non-executive Directors:*

Mr. Tsang Yok Sing, Jasper  
Mr. Zhao Zhong Zhen  
Mr. Chan Ngai Chi

27 November 2020

*To the Shareholders*

Dear Sir or Madam,

- (1) CONTINUING CONNECTED TRANSACTIONS REGARDING  
RENEWAL OF THE EXCLUSIVE DISTRIBUTORSHIP  
FRAMEWORK AGREEMENTS;  
(2) CONTINUING CONNECTED TRANSACTIONS REGARDING  
REVISION OF ANNUAL CAPS UNDER THE EXISTING PRC  
DISTRIBUTION FRAMEWORK AGREEMENT;  
AND  
(3) NOTICE OF EGM**

**CONTINUING CONNECTED TRANSACTIONS REGARDING RENEWAL OF THE  
EXCLUSIVE DISTRIBUTORSHIP FRAMEWORK AGREEMENTS**

**1. INTRODUCTION**

Reference is made to the announcement of the Company dated 6 November 2020 in relation to, inter alia, the entering of the New TRT Tech Exclusive Distributorship Framework Agreement and the New TRT Ltd. Exclusive Distributorship Framework Agreement by the Company with each of Tong Ren Tang Technologies and Tong Ren Tang Ltd., respectively.

## LETTER FROM THE BOARD

The Group is the primary overseas distribution platform of the Parent Group and is the only member of the Parent Group solely distributing PRC manufactured “Tong Ren Tang” branded Chinese medicine products outside PRC. The renewal of the Existing Exclusive Distributorship Framework Agreements is to ensure the continuity of the exclusive distributorship arrangement outside PRC, which is of utmost importance to the Parent Group as well as the Group.

As each of the Existing Exclusive Distributorship Framework Agreements will expire after 31 December 2020, the Company entered into the New TRT Tech Exclusive Distributorship Framework Agreement with Tong Ren Tang Technologies and the New TRT Ltd. Exclusive Distributorship Framework Agreement with Tong Ren Tang Ltd. to extend the respective continuing connected transactions for a further term of three years.

The purpose of this circular is to provide you with, among other things, (i) further information in relation to the New Exclusive Distributorship Framework Agreements and the new 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.

Details of the terms of the New Exclusive Distributorship Framework Agreements are set out as follows:

### **2. THE NEW EXCLUSIVE DISTRIBUTORSHIP FRAMEWORK AGREEMENTS**

#### **(i) The New TRT Tech Exclusive Distributorship Framework Agreement**

Date:	6 November 2020 (after trading hours)
Parties:	(1) the Company (2) Tong Ren Tang Technologies
Term:	The New TRT Tech Exclusive Distributorship Framework Agreement shall be for a term of three years from 1 January 2021 to 31 December 2023 (both days inclusive) and shall be effective upon the approval of the Independent Shareholders at the EGM.
Major terms and conditions:	<ul style="list-style-type: none"><li>• The Tong Ren Tang Technologies Group appoints TRT International Natural-Pharm, a wholly-owned subsidiary of the Company, as its sole overseas distributor for the distribution of the Relevant Products of the Tong Ren Tang Technologies Group in markets outside PRC.</li></ul>

## LETTER FROM THE BOARD

- Within the term of the New TRT Tech Exclusive Distributorship Framework Agreement and for the purpose of the overseas distribution of the Relevant Products of the Tong Ren Tang Technologies Group, TRT International Natural-Pharm will procure from the Tong Ren Tang Technologies Group, and the Tong Ren Tang Technologies Group shall supply to TRT International Natural-Pharm, the Relevant Products as agreed by the parties.
- The Tong Ren Tang Technologies Group shall provide trainings on the Relevant Products of the Tong Ren Tang Technologies Group and the Company is responsible for the registration and promotion of Relevant Products in markets outside PRC.
- Individual distribution agreement will be signed by members of the Tong Ren Tang Technologies Group and TRT International Natural-Pharm during the term of the New TRT Tech Exclusive Distributorship Framework Agreement to set out details of the quantity, price, specifications, standards, delivery time and settlement of the Relevant Products supplied, save as such individual distribution agreement shall be entered into on normal commercial terms as well as in accordance with the provisions of the New TRT Tech Exclusive Distributorship Framework Agreement.

Pricing policy:

- The price of the Relevant Products supplied by the Tong Ren Tang Technologies Group to TRT International Natural-Pharm shall not be higher than the wholesale price of the Relevant Products sold by the Tong Ren Tang Technologies Group to the wholesale customers in the PRC.
- Payment of the price will be specified in individual distribution agreement to be signed between members of the Tong Ren Tang Technologies Group and TRT International Natural-Pharm.

## LETTER FROM THE BOARD

- TRT International Natural-Pharm shall obtain an updated wholesale price list and payment terms of the Relevant Products which the members of Tong Ren Tang Technologies Group have offered to independent third parties on a quarterly basis so as to determine whether the price and terms offered to TRT International Natural-Pharm are fair and reasonable and comparable to those they offered to their unrelated wholesale customers in the PRC. Members of the Tong Ren Tang Technologies Group shall also notify TRT International Natural-Pharm in case there is any material update of the said wholesale price list and payment terms of the Relevant Products from time to time.

### **(ii) The New TRT Ltd. Exclusive Distributorship Framework Agreement**

Date: 6 November 2020 (after trading hours)

Parties: (1) the Company  
(2) Tong Ren Tang Ltd.

Term: The New TRT Ltd. Exclusive Distributorship Framework Agreement shall be for a term of three years from 1 January 2021 to 31 December 2023 (both days inclusive) and shall be effective upon the approval of the Independent Shareholders at the EGM.

Major terms and conditions:

- The Tong Ren Tang Ltd. Group appoints TRT International Natural-Pharm, as its sole overseas distributor for the distribution of the Relevant Products of the Tong Ren Tang Ltd. Group in markets outside PRC.
- Within the term of the New TRT Ltd. Exclusive Distributorship Framework Agreement and for the purpose of the overseas distribution of the Relevant Products of the Tong Ren Tang Ltd. Group, TRT International Natural-Pharm will procure from the Tong Ren Tang Ltd. Group, and the Tong Ren Tang Ltd. Group shall supply to TRT International Natural-Pharm, the Relevant Products as agreed by the parties.
- The Tong Ren Tang Ltd. Group shall provide trainings on the Relevant Products of the Tong Ren Tang Ltd. Group and the Company is responsible for the registration and promotion of Relevant Products in markets outside PRC.

## LETTER FROM THE BOARD

- Individual distribution agreement will be signed by members of the Tong Ren Tang Ltd. Group and TRT International Natural-Pharm during the term of the New TRT Ltd. Exclusive Distributorship Framework Agreement to set out details of the quantity, price, specifications, standards, delivery time and settlement of the Relevant Products supplied, save as such individual distribution agreement shall be entered into on normal commercial terms as well as in accordance with the provisions of the New TRT Ltd. Exclusive Distributorship Framework Agreement.

Pricing policy:

- The price of the Relevant Products supplied by the Tong Ren Tang Ltd. Group to TRT International Natural-Pharm shall not be higher than the wholesale price of the Relevant Products sold by the Tong Ren Tang Ltd. Group to the wholesale customers in the PRC.
- Payment of the price will be specified in individual distribution agreement to be signed between members of the Tong Ren Tang Ltd. Group and TRT International Natural-Pharm.
- TRT International Natural-Pharm shall obtain an updated wholesale price list and payment terms of the Relevant Products which the members of the Tong Ren Tang Ltd. Group have offered to independent third parties on a quarterly basis so as to determine whether the price and terms offered to TRT International Natural-Pharm are fair and reasonable and comparable to those they offered to their unrelated wholesale customers in the PRC. Members of the Tong Ren Tang Ltd. Group shall also notify TRT International Natural-Pharm in case there is any material update of the said wholesale price list and payment terms of the Relevant Products from time to time.

## LETTER FROM THE BOARD

### HISTORICAL FIGURES AND PROPOSED ANNUAL CAPS

Set out below is the aggregate historical amounts paid/payable by the Group in respect of its purchase of the Relevant Products for its distribution in markets outside PRC for the three years ended 31 December 2019 and nine months ended 30 September 2020 as well as the previous annual caps:

	Year ended 31 December						Nine months ended 30 September 2020	Year ending 31 December 2020
	2017 (HK\$ million) (Audited)		2018 (HK\$ million) (Audited)		2019 (HK\$ million) (Audited)		(HK\$ million) (Unaudited)	(HK\$ million)
	Actual amounts	Historical Cap	Actual amounts	Historical Cap	Actual amounts	Historical Cap	Actual amounts	Historical Cap
Amounts paid/payable under the Existing TRT Tech Exclusive Distributorship Framework Agreement	48.8		35.9	58.4	31.5	76.4	28.5	99.2
Amounts paid/payable under the Existing TRT Ltd. Exclusive Distributorship Framework Agreement	70.8		72.8	87.6	58.2	114.6	39.9	148.8
<b>Total paid/payable amounts</b>	<b>119.6</b>	<b>125.2</b>	<b>108.7</b>	<b>146.0</b>	<b>89.7</b>	<b>191.0</b>	<b>68.4</b>	<b>248.0</b>

The Company continues to monitor the transaction amounts under the Existing Exclusive Distributorship Framework Agreements and ensures that the actual amounts of the transactions for the year ending 31 December 2020 do not exceed the respective annual caps under the Existing Exclusive Distributorship Framework Agreements from time to time as stipulated under the internal control measures.

The proposed annual caps (exclusive of value-added tax in the PRC) under the New Exclusive Distributorship Framework Agreements for each of the three years ending 31 December 2021, 2022 and 2023 are set out below:

	For the year ending 31 December		
	2021	2022	2023
	(HK\$ million)	(HK\$ million)	(HK\$ million)
New TRT Tech Exclusive Distributorship Framework Agreement	53.7	61.8	71.0
New TRT Ltd. Exclusive Distributorship Framework Agreement	<u>86.2</u>	<u>99.1</u>	<u>114.0</u>
<b>Total proposed annual caps (exclusive of value-added tax in the PRC)</b>	<b><u>139.9</u></b>	<b><u>160.9</u></b>	<b><u>185.0</u></b>

## LETTER FROM THE BOARD

The proposed annual caps set out above are determined based on the following factors which are applicable to both of the New Exclusive Distributorship Framework Agreements:

- (a) the historical figures of the relevant transactions and the historical annual caps as disclosed above;
- (b) the expected improving market conditions and the continuous increase in demand for the Relevant Products in markets outside PRC;
- (c) the expected increase in supply prices for the Relevant Products over the next three years as a result of the continuous increase in manufacturing costs, in particular, continuous increase in costs in labour and raw materials;
- (d) taking into account the above items (b) and (c), it is estimated (i) a forecasted annual growth rate of 15% for 2021 to 2023 for the purchase of the Relevant Products from the Tong Ren Tang Technologies Group based on the Group's projected purchase amount of the Relevant Products from Tong Ren Tang Technologies Group for 2020, and (ii) a forecasted annual growth rate of 15% for 2022 to 2023 for the purchase of the Relevant Products from the Tong Ren Tang Ltd. Group based on the Group's projected purchase amount of the Relevant Products from Tong Ren Tang Ltd. Group for 2021 which is based on the Group's actual purchase amount of the Relevant Products from it for 2018; and
- (e) an annual buffer of 18% for the three years ended 31 December 2023 for any unexpected increase in the aforesaid transaction volume amount (as a result of any unexpected increase in market demand for the Relevant Products) or unexpected increase in the cost of supply or a change in exchange rate.

Such projection is 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 of the Tong Ren Tang Technologies Group or the Tong Ren Tang Ltd. Group.

### **REASONS AND BENEFITS FOR THE NEW EXCLUSIVE DISTRIBUTORSHIP FRAMEWORK AGREEMENTS**

The transactions contemplated under the New Exclusive Distributorship Framework Agreements are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group.

The Directors consider that securing a long-term business relationship with the Tong Ren Tang Ltd. Group and the Tong Ren Tang Technologies Group who have reputable business associated with profound experience in the Chinese medicine industry in the PRC is beneficial to the Group. The increased co-operation would be expected to bring considerable and stable contribution to the Group's revenue and profitability in the long run. Accordingly, the entering into the New Exclusive Distributorship Framework Agreements is in the interests of the Company and the Shareholders as a whole.

## LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the view that the New Exclusive Distributorship Framework Agreements (including the caps thereunder) (i) have been negotiated on an arm's length basis; (ii) have been conducted and will continue to be conducted on normal commercial terms, or on terms no less favourable than those available to or from independent third parties under prevailing local market conditions; (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.

### MEASURES OF INTERNAL CONTROL

To ensure the Group's conformity with the above-mentioned pricing policies in relation to the TRT Tech Continuing Connected Transactions and TRT Ltd. Continuing Connected Transactions, the Group adopts the following internal control policies for its daily operation:

- (i) the export department of TRT International Natural-Pharm and the sales department of the Company are responsible for specific implementation and supervision of the TRT Tech Continuing Connected Transactions and TRT Ltd. Continuing Connected Transactions, so as to ensure that such transactions are conducted in accordance with the terms of the New Exclusive Distributorship Framework Agreements;
- (ii) the finance department of the Company is responsible for monitoring, collecting and evaluating the detailed information of the TRT Tech Continuing Connected Transactions and TRT Ltd. Continuing Connected Transactions (including but not limited to the payment arrangements and actual transaction amount under each of the specific implementation agreements) on a regular basis, so as to ensure that the amount of the transaction does not exceed the established annual caps. If there is any imminent or possible exceeding of the annual caps of the TRT Tech Continuing Connected Transactions and TRT Ltd. Continuing Connected Transactions, the export department of TRT International Natural-Pharm and the sales department of the Company shall report as soon as possible to the finance department and the compliance department of the Company to determine the necessity to revise the annual caps on a timely basis. If the compliance department confirms the necessity to revise the annual caps, the export department of TRT International Natural-Pharm and the sales department of the Company shall propose the revised annual caps and reasons for adjustment, and relevant approval and disclosure procedures shall be implemented as soon as practicable. Prior to the compliance of all of the approval and disclosure procedures, the export department of TRT International Natural-Pharm and the sales department of the Company involved in the TRT Tech Continuing Connected Transactions and TRT Ltd. Continuing Connected Transactions shall closely monitor, and ensure that the transaction amounts do not exceed the annual caps;
- (iii) the Company shall regularly provide the export department of TRT International Natural-Pharm and the sales department of the Company with trainings on the requirements for continuing connected transactions under the Listing Rules so as to ensure the adequacy of relevant staff's qualifications and experience;

## LETTER FROM THE BOARD

- (iv) as mentioned above, TRT International Natural-Pharm shall procure an updated wholesale price list and payment terms of the Relevant Products which the Tong Ren Tang Technologies Group and the Tong Ren Tang Ltd. Group have offered to independent third parties on a quarterly basis so as to determine whether that the price and terms offered to TRT International Natural-Pharm are fair and reasonable and comparable to those they offered to their unrelated wholesale customers in the PRC. Members of the Tong Ren Tang Technologies Group and the Tong Ren Tang Ltd. Group shall also notify TRT International Natural-Pharm in case there is any material update of the said wholesale price list and payment terms of the Relevant Products from time to time;
- (v) the independent non-executive Directors and the auditor of the Company will also on a regular basis be provided with (i) the New Exclusive Distributorship Framework Agreements; (ii) sales contracts entered into between the Tong Ren Tang Technologies Group or the Tong Ren Tang Ltd. Group and independent third parties for the supply of the Relevant Products; (iii) individual distribution agreements entered into between the Group and the Tong Ren Tang Technologies Group or the Tong Ren Tang Ltd. Group (as the case may be); and (iv) the quarterly updated wholesale price lists and payment terms of the Relevant Products;
- (vi) the independent non-executive Directors have reviewed and will continue to review and compare the relevant payment terms, payment method and price payable under these agreements and sales contracts to ensure that the transactions contemplated under the New Exclusive Distributorship Framework Agreements are conducted on normal commercial terms, are fair and reasonable, are comparable to those entered into between the Tong Ren Tang Technologies Group or the Tong Ren Tang Ltd. Group (as the case may be) and independent third parties and are carried out pursuant to the terms of such agreements; and
- (vii) the auditor of the Company has reviewed and will also continue to conduct annual review on the pricing and annual caps of the TRT Tech Continuing Connected Transactions and TRT Ltd. Continuing Connected Transactions and confirm the transactions contemplated under the New Exclusive Distributorship Framework Agreements are conducted in accordance with the terms of the New Exclusive Distributorship Framework Agreements.

### LISTING RULES IMPLICATIONS

Each of Tong Ren Tang Ltd. and 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 each of the New Exclusive Distributorship Framework Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

## **LETTER FROM THE BOARD**

As one or more of the applicable percentage ratios (other than the profits ratio) of the proposed new annual caps of the TRT Tech Continuing Connected Transactions and TRT Ltd. Continuing Connected Transactions exceed 5% and the new annual caps is more than HK\$10,000,000, the New Exclusive Distributorship Framework Agreements and the respective transactions contemplated thereunder are subject to the reporting, announcement, 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 New Exclusive Distributorship Framework Agreements 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 such agreements. Save as disclosed, there is no other Director who has a material interest in the transactions contemplated under the New Exclusive Distributorship Framework Agreements.

### **CONTINUING CONNECTED TRANSACTIONS REGARDING REVISION OF ANNUAL CAPS UNDER THE EXISTING PRC DISTRIBUTION FRAMEWORK AGREEMENT**

#### **1. INTRODUCTION**

Reference is made to the announcement of the Company dated 6 November 2020 in relation to, inter alia, the revision of annual caps under Existing PRC Distribution Framework Agreement with Tong Ren Tang Holdings.

The purpose of this circular is to provide you with, among other things, (i) the revised annual caps under the Existing PRC Distribution Framework Agreement; (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.

#### **2. 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 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.

## LETTER FROM THE BOARD

### Principal Terms under the Existing PRC Distribution Framework Agreement

Except for the annual caps, all other terms of the Existing PRC Distribution Framework Agreement set out in the circular dated 5 December 2019 of the Company remain unchanged. The major terms and conditions, and the pricing policy of the Existing PRC Distribution Framework Agreement are set out below again for reference.

Major terms and conditions:

- The Company agreed that the Tong Ren Tang Group may purchase the Owned Products from the Group and may distribute the same to, among others, retailers or end-users in the PRC by acting as the non-exclusive distributor of the Group.
- Details and the quantities of such Owned Products shall be determined by both parties in accordance with the then market conditions and shall be stated in separate implementation agreements within the ambit of the Existing PRC Distribution Framework Agreement.

Pricing policy:

- Price for the Owned Products shall be determined based on:
  - (i) a reasonable cost plus a fair and reasonable profit margin: (a) the reasonable cost shall be determined by reference to the cost of the raw materials, the cost of labour and the manufacturing expense, etc.; and (b) the profit margin shall be determined by reference to the average gross profit rate of the Group in the previous years, which shall not be less than 50%; and
  - (ii) the prevailing market price, which is with reference to the price and sale terms of similar products in the industry and in the PRC market at the time when a separate implementation agreement is entered into.

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

The consideration for the Owned Products sold by the Group under the Existing 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.

## LETTER FROM THE BOARD

### 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 Existing 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 Existing PRC Distribution Framework Agreement and the relevant annual caps, and if exceeded, the Company will comply with the relevant Listing Rules accordingly.

### HISTORICAL FIGURES AND 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	For the year ending
2017		2018		2019		30 September 2020	31 December 2020
(HK\$'million)		(HK\$'million)		(HK\$'million)		(HK\$'million)	(HK\$'million)
(Audited)		(Audited)		(Audited)		(Unaudited)	
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

Despite the market demand for the Owned Products in the PRC exceeds the original projection for the year ended 31 December 2020, the Company continues to monitor the transaction amount under the Existing PRC Distribution Framework Agreement and ensures that the actual amount of the transactions does not exceed the original annual caps under the Existing PRC Distribution Framework Agreement from time to time as stipulated under the internal control measures before the approval from the Independent Shareholders is obtained for the revised annual caps under the Existing PRC Distribution Framework Agreement in the EGM.

## LETTER FROM THE BOARD

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

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 value-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 in the amount of around HK\$50 million (exclusive of value-added tax in the PRC) under the Existing PRC Distribution Framework Agreement and the projected sales for the two months ending 31 December 2020 which is estimated to be in the amount of around HK\$100 million;
- (c) the expected improving market conditions and the continuous increase in demand for the Owned Products in the PRC with a forecasted annual growth rate of 9% in demand for the Owned Products in the PRC for 2021 and 2022 based on the projected sales of the Owned Products in the PRC for 2020 under the Existing PRC Distribution Framework Agreement; and
- (d) a buffer of 8.4% for 2020 and 18% for 2021 and 2022 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.

## LETTER FROM THE BOARD

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

### 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 sales 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 sales 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. The sales 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 sales 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

## LETTER FROM THE BOARD

necessary), to store all the information for the Owned Products sold to the members of the Tong Ren Tang Group. Such database allows the sales 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.

### 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 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. As one or more of the applicable percentage ratios (other than the profits ratio) of the revised annual caps of the

## LETTER FROM THE BOARD

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 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.

### 3. 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.

#### **Tong Ren Tang Ltd.**

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

#### **TRT International Natural-Pharm**

TRT International Natural-Pharm is principally engaged in the sale and distribution of Chinese medicines and healthcare products.

#### **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..

## LETTER FROM THE BOARD

### 4. EGM

A notice convening the EGM to be held at Room 1405–1409, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Thursday, 17 December 2020 at 10:30 a.m., is set out on pages 47 to 48 of this circular at which ordinary resolutions will be proposed for the Independent Shareholders to consider and, if thought fit, to approve (i) the terms of the New Exclusive Distributorship Framework Agreements and the proposed new annual caps; and (ii) the revised annual caps under the Existing PRC Distribution Framework Agreement.

Votes on the resolutions 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 resolutions to be proposed at the EGM in relation to (i) the New Exclusive Distributorship Framework Agreements and the respective annual caps contemplated therein, and (ii) the revised annual caps under the Existing PRC Distribution Framework Agreement. 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 issued shares of the Company), control or are entitled to control over the voting right in respect of their shares of 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 New Exclusive Distributorship Framework Agreements and under the Existing PRC Distribution Framework Agreement required to abstain from voting on such resolutions 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 Centre, 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

### 5. 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 New Exclusive Distributorship Framework Agreements and the new annual caps, as well as the revised annual caps under the Existing PRC Distribution Framework Agreement ; 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 New Exclusive Distributorship Framework Agreements, the Existing 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 New Exclusive Distributorship Framework Agreements (including the new annual caps), as well as the revised annual caps under the Existing PRC Distribution Framework Agreement (a) have been negotiated on an arm's length basis; (b) will be conducted on normal commercial terms; (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 resolutions to be proposed at the EGM to approve the New Exclusive Distributorship Framework Agreements (including the proposed new annual caps) and the revised annual caps under the Existing PRC Distribution Framework Agreement 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 New Exclusive Distributorship Framework Agreements (including the proposed new annual caps) and the revised annual caps under the Existing PRC Distribution Framework Agreement, 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)**

27 November 2020

*To the Independent Shareholders*

Dear Sir or Madam,

**(1) CONTINUING CONNECTED TRANSACTIONS REGARDING  
RENEWAL OF THE EXCLUSIVE DISTRIBUTORSHIP  
FRAMEWORK AGREEMENTS;  
AND  
(2) CONTINUING CONNECTED TRANSACTIONS REGARDING  
REVISION OF ANNUAL CAPS UNDER THE EXISTING PRC  
DISTRIBUTION FRAMEWORK AGREEMENT**

We refer to a circular (the “**Circular**”) of the Company dated 27 November 2020 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, (i) the terms of the New Exclusive Distributorship Framework Agreements and the proposed annual caps; and (ii) the revised annual caps under the Existing PRC Distribution Framework Agreement, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered the terms of the New Exclusive Distributorship Framework Agreements and the proposed new annual caps and the advice of the Independent Financial Adviser in relation the New Exclusive Distributorship Framework Agreements and the proposed new annual caps thereto as set out in the Circular, we are of the opinion that the terms of the New Exclusive Distributorship Framework Agreements (together with the proposed new annual caps) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the revised annual caps under the Existing PRC Distribution Framework Agreement, and the advice of the Independent Financial Adviser in relation to the revised annual caps under the Existing PRC Distribution Framework Agreement as set out in the Circular, we are of the opinion that the revised annual caps under the Existing PRC Distribution Framework Agreement 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 in the Circular. We have also considered, amongst others, the various factors contained in such letter.

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the New Exclusive Distributorship Framework Agreements (including the proposed new annual caps), as well as the revised annual caps under the Existing PRC Distribution Framework Agreement.

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, 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

27 November 2020

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

Dear Sirs,

**(i) CONTINUING CONNECTED TRANSACTIONS REGARDING  
RENEWAL OF THE EXCLUSIVE DISTRIBUTORSHIP  
FRAMEWORK AGREEMENTS;  
AND  
(ii) CONTINUING CONNECTED TRANSACTIONS REGARDING  
REVISION OF ANNUAL CAPS UNDER  
THE EXISTING 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 (i) the New Exclusive Distributorship Framework Agreements and the transactions contemplated thereunder together with the proposed new annual caps of the transactions under the New Exclusive Distributorship Framework Agreements for each of the three years ending 31 December 2023 (the “**New Annual Caps**”); and (ii) the revision of annual caps (the “**Revised Annual Caps**”) under the Existing PRC Distribution Framework Agreement. Details of the terms of New Exclusive Distributorship Framework Agreements (together with the New Annual Caps) and the Revised Annual Caps are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 27 November 2020 (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.

Pursuant to the Existing Exclusive Distributorship Framework Agreements, Tong Ren Tang Technologies and Tong Ren Tang Ltd. appointed TRT International Natural-Pharm, a wholly-owned subsidiary of the Company, as the sole overseas distributor for the distribution of the Relevant Products in markets outside PRC for a term from 1 January 2018 to 31 December 2020. On 6 November 2020, the Company entered into the New Exclusive Distributorship Framework Agreements with Tong Ren Tang Technologies and Tong Ren Tang Ltd. to renew the existing agreements for a term of three years from 1 January 2021 to 31

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

December 2023. Pursuant to the Existing PRC Distribution Framework Agreement, the Company agreed that Tong Ren Tang Group may purchase the Owned Products from the Group and distribute the same, among others, retailers or end-users in the PRC by acting as the non-exclusive distributor of the Group. 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 aggregate of the annual caps under the Existing PRC Distribution Framework Agreement shall be revised accordingly.

As stated in the letter from the Board, each of Tong Ren Tang Ltd., Tong Ren Tang Technologies and Tong Ren Tang Holdings is the controlling shareholder/ultimate controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under each of the New Exclusive Distributorship Framework Agreements and the Existing 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 both the New Annual Caps and the Revised Annual Caps exceed 5% and both the New Annual Caps and the Revised Annual Caps are more than HK\$10,000,000, the New Exclusive Distributorship Framework Agreements and the Existing PRC Distribution Framework Agreement and the transactions contemplated thereunder are subject to reporting, announcement and annual review, as well as the independent shareholders' approval requirements under the Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Tsang Yok Sing, Jasper, Mr. Zhao Zhong Zhen and Mr. Chan Ngai Chi, has been formed for the purpose of advising the Independent Shareholders in respect of (i) the terms of the New Exclusive Distributorship Framework Agreements and the transactions contemplated thereunder (together with the New Annual Caps); and (ii) the Revised 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 Ltd., Tong Ren Tang Technologies, 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 New Exclusive Distributorship Framework Agreements and the transactions contemplated thereunder (together with the New Annual Caps) as well as the Revised 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 Ltd., Tong Ren Tang Technologies, Tong Ren Tang Holdings, or their respective substantial shareholders or associates.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

During the past two years, Somerley Capital Limited acted as the independent financial adviser and issued an opinion letter contained in the Company's circular dated 5 December 2019 in relation to the Existing PRC Distribution Framework Agreement. 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 Capital Limited received normal professional fees from the Company. Save for the past engagement, as at the Latest Practicable Date, there were no relationships or interests between Somerley Capital Limited on one hand and the Group, Tong Ren Tang Ltd. Group, Tong Ren Tang Technologies Group and Tong Ren Tang Group on the other hand that could reasonably be regarded as a hindrance to our independence as defined under the Listing Rules to act as the independent financial adviser to the Independent Board Committee and Independent Shareholders in connection with the New Exclusive Distributorship Framework Agreements and the transactions contemplated thereunder (together with the New Annual Caps) as well as the Revised Annual Caps under the Existing PRC Distribution Framework Agreement.

In formulating our opinion, we have reviewed, amongst others, the New Exclusive Distributorship Framework Agreements, the interim report of the Company for 2020, the annual reports of the Company for 2017, 2018 and 2019, the interim report of Tong Ren Tang Technologies for 2020 and the annual report of Tong Ren Tang Technologies for 2018 and 2019, 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 New Exclusive Distributorship Framework Agreements and the Existing 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 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 they were made. We have also sought and received confirmation from the Company that no 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 has 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 terms of the New Exclusive Distributorship Framework Agreements and the transactions contemplated thereunder (together with the New Annual Caps) and the Revised Annual Caps, we have taken into account the principal factors and reasons set out below:

### **1. Information on the Group**

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. TRT International Natural-Pharm, a wholly-owned subsidiary of the Company, is principally engaged in the sale and distribution of Chinese medicines and healthcare products.

### **2. Information on connected parties**

#### **Tong Ren Tang Ltd.**

Tong Ren Tang Ltd., 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, is the immediate holding company of the Company. It is principally engaged in the manufacturing and sale of Chinese medicines.

#### **Tong Ren Tang Technologies**

Tong Ren Tang Technologies, a joint stock limited company established in the PRC on 22 March 2000, the H shares of which have been listed on the Stock Exchange since 2000, is the immediate holding company of the Company. Tong Ren Tang Technologies is principally engaged in the manufacturing and sale of Chinese medicines.

#### **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. New Exclusive Distributorship Framework Agreements**

#### ***A. Reasons for and benefits of the entering into of the New Exclusive Distributorship Framework Agreements***

The Group is the primary overseas distribution platform of the Parent Group and is the only member of the Parent Group solely distributing PRC manufactured “Tong Ren Tang” branded Chinese medicine products outside PRC. The renewal of

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the Existing Exclusive Distributorship Framework Agreements is to ensure the continuity of the exclusive distributorship arrangement outside PRC, which is of utmost importance to the Parent Group as well as the Group.

As each of the Existing Exclusive Distributorship Framework Agreements will expire after 31 December 2020, the Company entered into the New Exclusive Distributorship Framework Agreements to extend the respective continuing connected transactions for a further term of three years. The Directors consider that securing a long-term business relationship with the Tong Ren Tang Ltd. Group and Tong Ren Tang Technologies Group which have reputable business associated with profound experience in the Chinese medicine industry in the PRC is beneficial to the Group. The increased co-operation would also be expected to bring considerable and stable contribution to the Group's revenue and profitability in the long run.

Based on the above, we concur with the Directors' view that the entering into of the New Exclusive Distributorship Framework Agreements 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.

### ***B. Principal terms of the New Exclusive Distributorship Framework Agreements***

Pursuant to the New Exclusive Distributorship Framework Agreements, Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group appoint TRT International Natural-Pharm as the sole overseas distributor for the distribution of the Relevant Products in markets outside PRC. The New Exclusive Distributorship Framework Agreements will be valid for a term of three years from 1 January 2021 to 31 December 2023 (both days inclusive) and will be effective upon the approval of the Independent Shareholders at the EGM. Details of the quantity, price, specifications, standards, delivery time and settlement of the Relevant Products supplied shall be set out in an individual distribution agreement signed by the parties. The price of the Relevant Products supplied to TRT International Natural-Pharm by the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group shall not be higher than the wholesale price of the Relevant Products sold by the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group to their wholesale customers in the PRC. Payment of the price will be specified in an individual distribution agreement to be signed between the parties.

The Group shall obtain an updated wholesale price list and payment terms of the Relevant Products that have been offered to independent third parties from members of the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group on a quarterly basis so as to determine whether the price and terms offered to the Group are fair and reasonable and comparable to those offered to their unrelated wholesale customers in the PRC. The Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group shall also notify the Group in case there is any material update of the said wholesale price list and payment terms of the Relevant Products from time to time.

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Under both the Existing Exclusive Distributorship Framework Agreements and the New Exclusive Distributorship Framework Agreements, the Group shall not be offered a price higher than the wholesale price of the Relevant Products sold by the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group to the wholesale customers in the PRC during the respective terms. The Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group also entered into sales contracts with other PRC distributors, which are independent of and not connected with the Company and its connected persons, for distributing the Relevant Products in the PRC (“**Third Party Sales Contracts**”). We have reviewed 15 samples of sales contracts between the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group on one hand and the Group on the other and 15 samples of the Third Party Sales Contracts entered into in the past three years, which is considered to be a fair and representative sample given that such sales contracts are randomly selected, and noted the pricing of the Relevant Products offered to the third party wholesalers in the Third Party Sales Contracts are no more favorable than those offered to the Group in the sales contracts entered into with the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group. On this basis, we consider that the purchases of the Relevant Products by the Group from the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group have been carried out in accordance with the Existing Exclusive Distributorship Framework Agreements.

Since the terms of the New Exclusive Distributorship Framework Agreements, which were arrived at after arm’s length negotiations between the Company with the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group, are substantially the same as the existing ones, and given the pricing of the Relevant Products offered to the Group will be determined on an arm’s length basis and at rates not higher than those offered by the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group to the third party wholesalers in the PRC and the payment terms will always be on normal commercial terms, we consider that the terms of the New Exclusive Distributorship Framework Agreements 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 and as stated in the letter from the Board of the Circular, review the non-exempt continuing connected transactions to ensure that related agreements are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements; and (ii) the auditors of the Company will, for the purpose of Rule 14A.56 of the Listing Rules, conduct annual review on the pricing and annual caps of the non-exempt continuing connected transactions, 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 New Exclusive Distributorship Framework Agreements in order to protect the interests of the Company and the Independent Shareholders.

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## *C. Analysis on the New Annual Caps (exclusive of value-added tax in the PRC)*

Set out below are the proposed New Annual Caps (exclusive of value-added tax in the PRC) for each of the three years ending 31 December 2021, 2022 and 2023:

	<b>For the year ending 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>(HK\$'million)</i>	<i>(HK\$'million)</i>	<i>(HK\$'million)</i>
Tong Ren Tang Technologies	53.7	61.8	71.0
Tong Ren Tang Ltd.	<u>86.2</u>	<u>99.1</u>	<u>114.0</u>
<b>Total</b>	<b><u>139.9</u></b>	<b><u>160.9</u></b>	<b><u>185.0</u></b>

Shareholders should note that the New Annual Caps (exclusive of value-added tax in the PRC) shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group or the Tong Ren Tang Technologies Group or Tong Ren Tang Ltd. Group.

We have reviewed and discussed with the management of the Group the calculation of the proposed New Annual Caps (exclusive of value-added tax in the PRC) for the purchase of the Relevant Products from the Tong Ren Tang Technologies Group and the Tong Ren Tang Ltd. Group for the years ending 31 December 2021, 2022 and 2023, and noted that the proposed New Annual Caps were prepared with reference to (i) historical purchase of the Relevant Products; (ii) expected increase in supply of Relevant Products from Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group in 2021–2023; and (iii) a buffer for each of 2021–2023.

### *(i) Historical purchase of the Relevant Products*

We have discussed with the management of the Group the businesses of the Group in the past few years and its future prospects and noted that the Group's operations have been affected by various factors over the past two years and it would be relevant to look at the purchase record in the distant past in order to assess the Group's business prospects. Set out below are the Group's actual and projected purchase of the Relevant Products for its distribution in

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markets outside PRC for the seven years ended 31 December 2019, nine months ended 30 September 2020 and for the year ending 31 December 2020 respectively:

	For the year ended 31 December							For the nine months ended	For the year ending
	2013	2014	2015	2016	2017	2018	2019	30 September 2020	31 December 2020
	(Actual amount)							(Actual amount)	(Forecasted amount)
Tong Ren Tang Technologies (HK\$'million)	11.3	13.7	15.8	27.1	48.8	35.9	31.5	28.5	39.6
Year-on-year growth rate	N.A.	21.2%	15.3%	71.5%	80.1%	(26.4)%	(12.3)%	N.A.	25.7%
Tong Ren Tang Ltd. (HK\$'million)	29.0	33.9	38.4	45.3	70.8	72.8	58.2	39.9	55.7
Year-on-year growth rate	N.A.	16.9%	13.3%	18.0%	56.3%	2.8%	(20.1)%	N.A.	(4.3)%
<b>Total</b>	<b>40.3</b>	<b>47.5</b>	<b>54.2</b>	<b>72.4</b>	<b>119.6</b>	<b>108.7</b>	<b>89.7</b>	<b>68.4</b>	<b>95.3 <sup>(1)</sup></b>
Year-on-year growth rate	N.A.	17.9%	14.1%	33.6%	65.2%	(9.1)%	(17.5)%	N.A.	6.2%

Notes:

(1) As stated in the letter from the Board, the Company continues to monitor the transaction amounts under the Existing Exclusive Distributorship Framework Agreements and ensures that the actual amounts of the transactions for the year ending 31 December 2020 do not exceed the respective annual caps under the Existing Exclusive Distributorship Framework Agreements from time to time as stipulated under the internal control measures.

(2) Due to rounding, the figures may not add up to the total.

As set out in the above table, the total purchase of the Relevant Products from Tong Ren Tang Technologies and Tong Ren Tang Ltd. has demonstrated positive year-on-year growth during 2013–2019 except for 2018 and 2019.

As advised by the management of the Group, the decline in purchase of the Relevant Products from Tong Ren Tang Technologies in 2018 and 2019 was mainly due to the shortage of product supply as a result of the GMP (Good Manufacturing Practice) recertification of the old factories and the transfer of the production to the new ones. We note that, (i) as stated in the annual report of Tong Ren Tang Technologies for 2018, the workshops in one of its production bases were in the process of GMP certification in 2018; and (ii) as

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stated in the annual report of Tong Ren Tang Technologies for 2019, Tong Ren Tang Technologies experienced a shortage of production and supply of a number of series of products since the beginning of the first quarter of 2019. The existing production lines of pills, liquid preparations and other products in its two factories were required to undergo GMP recertification. The two new production bases passed the GMP certification in April and July in 2019, respectively. However, due to the time needed for product transfer from the old to the new production base, production connection and commissioning of the new production lines, the two new production bases did not commence operation until the second half of 2019, and the production capacities have not yet been fully released. As a result, Tong Ren Tang Technologies' overall production volume was limited, leading to a decline in the total production volume of Chinese patent medicine in 2019 by more than approximately 20% as compared with the corresponding period last year. As stated in the interim report of Tong Ren Tang Technologies for 2020, the two new production units overcame the difficulties brought by the epidemic, enhanced the links between each step of production, reasonably adjusted production pace and released the pressure of supply for its products while keeping production quality and accelerating release of capacity. As a result, both total production value and production volume of Tong Ren Tang Technologies Group's Chinese patent medicine increased by 30% as compared to the same period last year. Based on the information provided by the Group, it is expected that the purchase of the Relevant Products from Tong Ren Tang Technologies will increase by 25.7% year-on-year to HK\$39.6 million in 2020.

As advised by the management of the Group, the decrease in purchase of the Relevant Products from Tong Ren Tang Ltd. in 2019 was also due to the shortage of product supply. The Tong Ren Tang Ltd. Group underwent the implementation of rectifications with a view to strengthening internal management and thus slowed down its business activities including production of the Relevant Products. As set out in the above table, the purchase of the Relevant Products from Tong Ren Tang Ltd. decreased from HK\$72.8 million in 2018 to HK\$58.2 million in 2019. It is expected to slightly further decrease to HK\$55.7 million in 2020 due to COVID-19 pandemic. With the situation having been under control in the PRC, the management of the Group believes that, starting from 2021, the purchase of the Relevant Products will resume to or even exceed its level before the implementation of rectifications on internal management of the Tong Ren Tang Ltd. Group.

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(ii) *New Annual Caps (exclusive of value-added tax in the PRC)*

Set out below are the Group's projected purchase of the Relevant Products for its distribution in markets outside PRC for the three years ending 31 December 2021, 2022 and 2023:

	<b>For the year ending 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>(HK\$'million)</i>	<i>(HK\$'million)</i>	<i>(HK\$'million)</i>
Tong Ren Tang Technologies	45.5	52.3	60.2
Buffer	<u>8.2</u>	<u>9.5</u>	<u>10.8</u>
<b>Total</b>	<b><u>53.7</u></b>	<b><u>61.8</u></b>	<b><u>71.0</u></b>
Tong Ren Tang Ltd.	73.0	84.0	96.5
Buffer	<u>13.2</u>	<u>15.2</u>	<u>17.5</u>
<b>Total</b>	<b><u>86.2</u></b>	<b><u>99.1</u></b>	<b><u>114.0</u></b>

*Note:* Due to rounding, the figures may not add up to the total.

We have discussed with and reviewed the purchase projection of the Relevant Products for 2021–2023 provided by the management of the Group. As advised by the management of the Group, the purchase projection from Tong Ren Tang Technologies has been prepared based on the projected purchase amount for 2020 and the annual growth rate of 15% for 2021–2023. As discussed in section 3.C.(i) above, the production output of the Tong Ren Tang Technologies Group's Chinese patent medicine almost resumed to its level before the transfer of its production to the two new factories as evidenced by the increase in relevant output by 30% year-on-year in the first half of 2020. Together with the annual growth rate of 15%, which is close to the low end of the actual growth rates in 2014–2017, the projected purchase amount from Tong Ren Tang Technologies Group, in our view, is reasonable.

As advised by the management of the Group, the purchase projection from Tong Ren Tang Ltd. for 2021 has been prepared based on the actual purchase amount for 2018 before the implementation of rectifications on internal management by the Tong Ren Tang Ltd. Group in 2019 as discussed in section 3.C.(i) above and the annual growth rate of 15% for 2022–2023. Having considered that (i) the internal rectifications of Tong Ren Tang Ltd. Group have been, as advised by the management of the Group, substantially completed; (ii) the epidemic situation is under control in the PRC; and (iii) the annual growth rate of 15%, which is close to average growth rates in 2014–2016, the projected purchase amount from the Tong Ren Tang Ltd., in our view, is reasonable.

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### *(iii) A buffer for each of 2021–2023*

We noted that a buffer of 18% has been applied to the projected purchase amounts for 2021–2023 before arriving at the New Annual Caps. Such buffer, which is higher than the buffer of 10% adopted for the existing annual caps, is not only to allow flexibility to take up any unexpected increases in the transaction amount but also to accommodate fluctuations of the exchange rate between RMB and HK\$. Set out below are the movements of RMB1 to HK\$ since the beginning of 2013 to 6 November 2020, the date of the announcement of the Company in relation to inter alia, the entering into of the New Exclusive Distributorship Framework Agreements:



*Source: Bloomberg*

As shown in the above chart, significant fluctuations are seen in the exchange rate between RMB and HK\$ since the beginning of 2013. It hit its highest at 1.2840 on 27 January 2014, being 18.5% higher than its lowest which was recorded at 1.0832 on 28 May 2020. Having considered the fluctuations in (i) the exchange rate between RMB and HK\$ since the beginning of 2013; and (ii) the historical purchase amounts as discussed in section 3.C.(i), a buffer of 18% is considered to be reasonable.

Based on the above, we are of the view that the New Annual Caps (exclusive of value-added tax in the PRC) are fair and reasonable so far as the Independent Shareholders are concerned.

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### 4. Revised Annual Caps under the Existing PRC Distribution Framework Agreement

#### A. *Reasons for and benefits of the revision of annual caps*

As set out in the letter from the Board, 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 Revised Annual Caps for the sale of the Owned Products 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.

Based on the above and the facts that (i) the sales of the Owned Products for the nine months ended 30 September 2020 has already utilized around 70% of the original annual cap for 2020; and (ii) the sales amount to the Tong Ren Tang Group will be accounted for as revenue of the Group, we concur with the Directors' view that the Revised Annual Caps are fair and reasonable and we consider that it is in the interests of the Company and the Shareholders as a whole.

#### B. *Analysis on Revised Annual Caps (exclusive of value-added tax in the PRC)*

Set out below are the original annual caps (exclusive of value-added tax in the PRC) under the Existing PRC Distribution Framework Agreement as well as the Revised Annual Caps (exclusive of value-added tax in the PRC) for the three years ending 31 December 2020, 2021 and 2022:

	For the year ending 31 December		
	2020	2021	2022
	(HK\$'million)	(HK\$'million)	(HK\$'million)
<b>Original annual caps</b>			
Tong Ren Tang Holdings	273.0	296.0	322.0
<b>Revised Annual Caps</b>			
Tong Ren Tang Holdings	363.0	430.0	470.0

Shareholders should note that the Revised Annual Caps (exclusive of value-added tax in the PRC) shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group or Tong Ren Tang Group.

We have reviewed and discussed with the management of the Group the calculation of the proposed Revised Annual Caps (exclusive of value-added tax in the PRC) for the sales of the Owned Products to the Tong Ren Tang Group for the

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years ending 31 December 2020, 2021 and 2022, and noted that the Revised Annual Caps were determined based on (i) historical sales of the Owned Products; (ii) estimated increase in sales of the Owned Products; and (iii) buffers for each of 2020–2022.

*(i) Historical sales of the Owned Products*

Set out below are the Group’s actual sales of the Owned Products to the Tong Ren Tang Group for each of the four years ended 31 December 2019 as extracted from the Company’s annual report for 2017, 2018 and 2019, and the data for the nine months ended 30 September 2020 as provided by the Company:

	For the year ended 31 December				For the nine months ended 30 September
	2016	2017	2018	2019	2020
Sales of Owned Products to the Tong Ren Tang Group (HK\$’million)	151.8	197.3	214.2	204.0	183.6 <i>(Note)</i>
Year-on-year growth rate	—	30.0%	8.6%	(4.8)%	N.A.

*Note:* As stated in the letter from the Board, despite the market demand for the Owned Products in the PRC exceeds the original projection for the year ended 31 December 2020, the Company continues to monitor the transaction amount under the Existing PRC Distribution Framework Agreement and ensures that the actual amount of the transactions does not exceed the original annual caps under the Existing PRC Distribution Framework Agreement from time to time as stipulated under the internal control measures before the approval from the Independent Shareholders is obtained for the revised annual caps under the Existing PRC Distribution Framework Agreement in the EGM.

As shown in the above table, the sales of the Owned Products to the Tong Ren Tang Group has experienced a slowdown in 2018 with a year-on-year increase of 8.6% as compared to 30% in 2017, and further a negative year-on-year growth of 4.8% in 2019. For 2019, as advised by the management of the Group, the decrease in sales of Owned Products was due to the slowdown in business activities of the Tong Ren Tang Group with a view to focus on strengthening internal management and implementation of rectifications. After the completion of the rectifications by the Tong Ren Tang Group, the sales of the Owned Products to the Tong Ren Tang Group has resumed its uptrend in 2020 as evidenced by (i) the increase in sales amount for the first half of 2020 by 12% as compared to that of 2019 according to the Company’s interim report

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for 2020; and (ii) sales amount for the nine months ended 30 September 2020 reaching 85.7% of full-year sales amount in 2018, which is the highest amount in 2016–2019.

(ii) *Revised Annual Caps (exclusive of value-added tax in the PRC)*

Set out below are the Group's projected sales of Owned Products to the Tong Ren Tang Group for the three years ending 31 December 2020, 2021 and 2022:

	<b>For the nine months ended 30 September 2020</b>	<b>For the year ending 31 December</b>		
	<b>2020</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(HK\$'million)</i>	<i>(HK\$'million)</i>	<i>(HK\$'million)</i>	<i>(HK\$'million)</i>
	<i>(Actual)</i>	<i>(Estimated)</i>	<i>(Estimated)</i>	<i>(Estimated)</i>
Sales of Owned				
Products to the Tong				
Ren Tang Group	183.6	334.9	365.1	397.9
Buffer	N.A.	28.1	64.9	72.1
	<u>183.6</u>	<u>363.0</u>	<u>430.0</u>	<u>470.0</u>
<b>Total</b>	<b><u>183.6</u></b>	<b><u>363.0</u></b>	<b><u>430.0</u></b>	<b><u>470.0</u></b>

We have reviewed and discussed with the management of the Group the sales projection of the Owned Products for 2020–2022 provided by them. As advised by the management of the Group, such projection has been prepared based on the projected sales amount for 2020 and the annual growth rate of 9% for 2021–2022. As advised by the management of the Group, the sales projection to the Tong Ren Tang Group for 2020 has been prepared based on (i) the actual sales amount for the nine months ended 30 September 2020; (ii) the purchase orders placed by the Tong Ren Tang Group in October 2020; and (iii) the estimated sales for November and December 2020 which is projected based on the purchase orders in October 2020. We have reviewed the purchase orders placed by the Tong Ren Tang Group in October 2020 and noted that the purchase orders of Owned Products for October 2020 will reach HK\$50.0 million (exclusive of value-added tax in the PRC). Having adopted the annual growth rate of 9% for 2021 and 2022, which is close to the growth rate of 2018, the year before the implementation of the internal rectifications by the Tong Ren Tang Group, the projected sales amount to Tong Ren Tang Group for 2020–2022, in our view, is reasonable.

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### *(iii) Buffers for each of 2020–2022*

We noted that a buffer of 8.4% for 2020 and buffers of approximately 18% for 2021–2022 have been applied to the projected sales amounts to the Tong Ren Tang Group before arriving at the Revised Annual Caps. Such buffers are built in to accommodate any unexpected increase in sales amount and exchange rate fluctuations as discussed in section 3.C.(iii). Having considered the remaining period for 2020 is only three months and the projected sales for 2020 is based on the actual sales amount for the first three quarters of 2020, the purchase orders placed by the Tong Ren Tang Group in October 2020 and the estimated sales for the remaining two months of 2020 with reference to the purchase orders placed in October 2020, the unexpected increase or fluctuations in the sales amount and the exchange rate for the fourth quarter of 2020 is relatively limited and the buffer is thus relatively smaller compared to those of 2021–2022.

Based on the above and the fact that the sales amount to the Tong Ren Tang Group will be accounted for as revenue of the Group, we are of the view that the Revised Annual Caps (exclusive of value-added tax in the PRC) are fair and reasonable so far as 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 New Exclusive Distributorship Framework Agreements 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; (ii) the terms of the New Exclusive Distributorship Framework Agreements and the transactions contemplated thereunder (together with the New Annual Caps) are on normal commercial terms; and (iii) the Revised Annual Caps are fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders, to vote in favor of the ordinary resolutions to be proposed at the EGM in relation to the New Exclusive Distributorship Framework Agreements and the transactions contemplated thereunder (together with the New Annual Caps) and the Revised 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 SFC to carry out type 6 (advising on corporate finance) regulated activity 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 the 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 executives of the Company which would have to be notified to the Company pursuant to Divisions 7 and 8 of 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*

	<b>Types of interests</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>Approximate percentage of issued share capital</b>
Ding Yong Ling	Personal	Beneficial owner	410,000	0.049%
Zhang Huan Ping	Personal	Beneficial owner	100,000	0.012%
Lin Man	Personal	Beneficial owner	290,000	0.035%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives 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 was known to the Directors and the chief executives of the Company, the interest of the persons, other than Directors or chief executives of the Company, in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of 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*

Name of Shareholders	Capacity	Number of shares	Approximate percentage of issued share capital
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% domestic shares and 0.79% H shares 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 was known to the Directors and chief executives of the Company, the Company had not been notified by any persons (other than Directors or chief executives 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 2019, 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 (the “**Deed of Non-competition**”), details of which are set out in the prospectus of the Company dated 25 April 2013 (the “**Prospectus**”), 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 Hong Kong, Macao and 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 Niu Huang Wan in the 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 (the “**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 (7) 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 the 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 Directors 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 interested, directly or indirectly, in any assets which had since 31 December 2019, 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 2019, 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 27 to 41 in this circular;
- (b) the written consent of Somerley referred to in this Appendix;
- (c) the New TRT Tech Exclusive Distributorship Framework Agreement;
- (d) the New TRT Ltd. Exclusive Distributorship Framework Agreement; and
- (e) the Existing PRC Distribution Framework Agreement dated 2 December 2019.



**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 (the “EGM”) of Beijing Tong Ren Tang Chinese Medicine Company Limited (the “**Company**”) will be held at 10:30 a.m. on Thursday, 17 December 2020 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 resolutions:

**As Ordinary Resolutions**

1. “THAT, the new exclusive distributorship framework agreement entered into by the Company with Tong Ren Tang Technologies Co. Ltd. on 6 November 2020 (the “**New TRT Tech Exclusive Distributorship Framework Agreement**”), and the new annual caps for the three years ending 31 December 2023 for the continuing connected transactions of the Company contemplated under the New TRT Tech Exclusive Distributorship Framework Agreement 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/she may consider necessary or desirable for the purpose of giving effect to the terms of the New TRT Tech Exclusive Distributorship Framework Agreement and completing the transactions contemplated thereunder with such changes as he may consider necessary, desirable or expedient.”
2. “THAT, the new exclusive distributorship framework agreement entered into by the Company with Beijing Tong Ren Tang Company Limited on 6 November 2020 (the “**New TRT Ltd. Exclusive Distributorship Framework Agreement**”), and the new annual caps for the three years ending 31 December 2023 for the continuing connected transactions of the Company contemplated under the New TRT Ltd. Exclusive Distributorship Framework Agreement 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/she may consider necessary or desirable for the purpose of giving effect to the terms of the New TRT Ltd. Exclusive Distributorship Framework Agreement and completing the transactions contemplated thereunder with such changes as he may consider necessary, desirable or expedient.”

## NOTICE OF EGM

3. “THAT, the revised annual caps for the three years ending 31 December 2022 for the transactions contemplated thereunder the existing PRC distribution framework agreement dated 2 December 2019 (“**Existing PRC Distribution Framework Agreement**”) entered into between the Company and China Beijing Tong Ren Tang Group Co. Ltd. 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/she may consider necessary or desirable for the purpose of giving effect to the revision of annual caps under the Existing 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 of directors  
**Beijing Tong Ren Tang**  
**Chinese Medicine Company Limited**  
**Ding Yong Ling**  
*Chairman*

Hong Kong, 27 November 2020

*Notes:*

- (1) 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.
- (2) 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 notorially 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.
- (3) 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.
- (4) If a shareholder appoints more than one proxy, such proxies shall only exercise their voting rights by a poll.
- (5) 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, 14 December 2020 to Thursday, 17 December 2020 (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, 11 December 2020.

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