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BEIJING TONG REN TANG CHINESE MEDICINE COMPANY LIMITED

北京同仁堂國藥有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 3613)

**CONTINUING CONNECTED TRANSACTIONS
REGARDING
THE RENEWED MASTER LEASE FRAMEWORK AGREEMENT**

THE RENEWED MASTER LEASE FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated 30 December 2019 in relation to the continuing connected transactions contemplated under the Existing Master Lease Framework Agreement with Tong Ren Tang Holdings.

As the Existing Master Lease Framework Agreement will expire on 31 December 2022, the Company has entered into the Renewed Master Lease Framework Agreement with Tong Ren Tang Holdings on 30 December 2022 to renew the leases arrangement, pursuant to which, Tong Ren Tang Holdings has agreed to lease and procure other members of the Tong Ren Tang Group to lease certain premises to any member of the Group for its productions and operations so that any member of the Group may amend or renew the Existing Leases with any member of the Tong Ren Tang Group from time to time for a further term of three years ending on 31 December 2025, subject to the annual caps.

IMPLICATIONS UNDER THE LISTING RULES

As of the date of this announcement, Tong Ren Tang Holdings, who is interested in approximately 71.67% of the issued share capital of the Company, is the ultimate controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Renewed Master Lease Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Pursuant to HKFRS 16, the Group if entering into lease transaction as a lessee should recognise the right-of-use asset in the consolidated financial statements. The entering into lease transactions by the Group as lessee contemplated under the Renewed Master Lease Framework Agreement will be regarded as an acquisition of asset under Rule 14.04(1)(a) of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio and equity capital ratio) of the proposed annual caps under the Renewed Master Lease Framework Agreement for the three years ending 31 December 2025, exceed 0.1% but less than 5%, the transactions contemplated thereunder are subject to reporting, announcement and annual review requirements but exempt from the independent Shareholders' approval requirements under the Listing Rules.

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The Renewed Master Lease Framework Agreement

- Date** : 30 December 2022 (after trading hours)
- Parties** : (1) the Company (as lessee); and
(2) Tong Ren Tang Holdings (as lessor)
- Term** : The Renewed Master Lease Framework Agreement is for a term of three years commenced from 1 January 2023 and ending on 31 December 2025 (both days inclusive). Upon expiry, the Renewed Master Lease Framework Agreement will, subject to compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years.

- Major terms** : The Renewed Master Lease Framework Agreement sets out a framework of the terms on which Tong Ren Tang Holdings has agreed to lease and procure other members of the Tong Ren Tang Group to lease certain premises to any member of the Group for the Group’s productions and operations, including but not limited to office premises, warehouses and staff quarter.
- Rental determination** :
 - The rental of each of the Leases shall be determined by reference to the relevant market price which is with reference to the rental information of certain premises of similar specification and size in similar locations, and shall be negotiated on an arm’s length basis of such market terms, in order to make sure that the terms offered by the Tong Ren Tang Group to the Group would not be less favorable than those offered by independent third parties on the market under the same condition; or
 - Where the market price is not available, the rental of each of the Leases shall be determined based on the contracted price which is determined after arm’s length negotiation based by both parties of the agreement based on the principle of cost plus a fair and reasonable profit rate and by reference to the historical rentals. The reasonable cost shall be determined by reference to the size of the premises provided by the Tong Ren Tang Group, and the cost of premises management.
- Payment** : The rentals under the Renewed Master Lease Framework Agreement are payable according to the specific and separate implementation agreements and funded by the Group’s internal resources. The Directors are of view that such payment terms are in line with the market practice.

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 to set out the specific terms and conditions in respect of the relevant premises leased thereunder.

As the implementation agreements provide for the lease of the relevant premises as contemplated under the Renewed Master Lease Framework Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreements will be within the ambit of the Renewed Master Lease Framework Agreement and the relevant annual caps, and if exceed, the Company will comply with the relevant Listing Rules accordingly.

Historical Figures

The annual caps under the Existing Master Lease Framework Agreement for each of the years ended 31 December 2020 and 2021 and the year ending 31 December 2022 are HK\$21,000,000, HK\$16,000,000 and HK\$11,200,000, respectively.

Set out below is the historical total value of right-of-use assets related to the Existing Leases for the years ended 31 December 2020 and 2021 and the nine months ended 30 September 2022 under the Existing Master Lease Framework Agreement:

	Year ended 31 December		Nine months ended
	2020	2021	30 September
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>2022</i>
	(Audited)	(Audited)	(Unaudited)
Total value of right-of-use assets	14,551	985	2,474

Proposed Annual Caps

According to HKFRS 16, the Group is required to recognise a right-of-use asset and a lease liability, which are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate in the year of entering into the lease where the Group acts as a lessee. Correspondingly, the Group is required to set annual caps on the total value of right-of-use assets relating to leases to be entered into by the Group as a lessee in each year under the Renewed Master Lease Framework Agreement.

The Directors have proposed the following annual caps, which represent the total value of right-of-use assets relating to Leases to be entered into by the Group each year under the Renewed Master Lease Framework Agreement, for the years ending 31 December 2023, 2024 and 2025:

	For the year ending 31 December		
	2023	2024	2025
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Proposed annual caps	21,000	4,200	4,350

In arriving at the above proposed annual caps, the Directors have taken into account the following factors:

- (a) the historical annual rental under the Existing Leases and the historical annual caps as disclosed above;
- (b) the market rental for similar premises in the area leased under the Renewed Master Lease Framework Agreement during the three years ending 31 December 2025;
- (c) the expected new leases of the premises in the PRC for the office and warehouse use during the three years ending 31 December 2025;
- (d) the potential appreciation in the RMB and other foreign currencies against HK\$; and
- (e) a buffer of around 12% has been provided to the proposed annual caps for the possible demand of the Group for the new leases of premises for its business expansion.

REASONS FOR ENTERING INTO THE RENEWED MASTER LEASE FRAMEWORK AGREEMENT

The Group anticipates that it will continue to lease from Tong Ren Tang Group to satisfy the future business needs of the Group from time to time. Accordingly, the Company and Tong Ren Tang Holdings have entered into the Renewed Master Lease Framework Agreement to set out a framework of the terms on which they may enter into certain lease agreements.

In view of the above and that (a) compared with leasing from independent third parties, the Tong Ren Tang Group has a better understanding of the Group's requirements in terms of premises; and (b) the Renewed Master Lease Framework Agreement enables the Group to secure relatively more stable rental terms, the Directors (including the independent non-executive Directors) consider that (i) the Renewed Master Lease Framework Agreement are entered into in the ordinary and usual course of business of the Group; (ii) the Renewed Master Lease Framework Agreement (together with the proposed annual caps) are entered into on normal commercial terms after arm's length negotiations between the parties; and (iii) the terms of the Leases contemplated under the Renewed Master Lease Framework Agreement (together with the annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES

In order to ensure that the aforesaid pricing basis for the continuing connected transactions contemplated under the Renewed Master Lease Framework Agreement is adhered to, the Company will adopt the following internal control measures:

- (i) after entering into the Renewed Master Lease Framework Agreement, the continuing connected transactions shall be strictly in compliance with the approved terms and conditions. Implementation agreements under the Renewed Master Lease Framework Agreement shall be performed in strict accordance with pricing policies set out in the Renewed Master Lease Framework Agreement. If revision of such terms and conditions is required due to change of actual situation, it is required to re-perform appropriate approval process;
- (ii) the finance department of the Company is responsible for monitoring, collecting and reviewing the pricing terms, payment arrangements and actual transaction amounts of each of the specific implementation agreements to the Renewed Master Lease Framework Agreement. The finance department of the Company is responsible for collecting the total transaction amounts of the continuing connected transactions under the Renewed Master Lease Framework Agreement on a monthly basis. The relevant departments of the Company also continue to monitor the aforesaid information so as to ensure all transactions under the Renewed Master Lease Framework Agreement are entered into on normal commercial terms or better, are fair and reasonable, and such transactions are carried out pursuant to the terms of the Renewed Master Lease Framework Agreement. The relevant departments, if discover any imminent or possible exceeding of the annual caps of any continuing connected transactions under the Renewed Master Lease Framework Agreement, shall report as soon as possible to the compliance department of the Company to determine whether to raise the annual caps. If the compliance department confirms the necessity to raise the annual caps, the relevant departments shall propose the revised annual caps and reasons for adjustment, and relevant approval and disclosure procedures shall be re-performed. Before completion of all of the approval and disclosure procedures, the relevant departments involved in the continuing connected transactions shall ensure that the transaction amounts do not exceed the respective annual caps;

- (iii) the independent non-executive Directors will review the continuing connected transactions under the Renewed Master Lease Framework Agreement to ensure all transactions contemplated thereunder are entered into on normal commercial terms or better, are fair and reasonable, and such transactions are carried out pursuant to the terms of the Renewed Master Lease Framework Agreement; and
- (iv) the auditor of the Company will also conduct an annual review on the pricing and annual caps of the continuing connected transactions under the Renewed Master Lease Framework Agreement.

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

LISTING RULES IMPLICATIONS

As of the date of this announcement, Tong Ren Tang Holdings, who is interested in approximately 71.67% of the issued share capital of the Company, is the ultimate controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Renewed Master Lease Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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Ms. Ding Yong Ling (who is the director and the deputy general manager of Tong Ren Tang Holdings), the Chairman and an executive Director of the Company, is considered to have material interests in the transactions contemplated under the Renewed Master Lease Framework Agreement by virtue of her positions in Tong Ren Tang Holdings and has abstained from voting on the relevant resolutions in the Board meeting to approve the transactions contemplated under the Renewed Master Lease Framework Agreement.

Save as disclosed, there is no other Director who has a material interest in the transactions contemplated under the Renewed Master Lease Framework Agreement.

GENERAL INFORMATION

The Company

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

Tong Ren Tang Holdings

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

DEFINITIONS

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

“Existing Master Lease Framework Agreement”	a master lease framework agreement dated 30 December 2019 entered into between the Company and Tong Ren Tang Holdings in respect of the leasing of certain premises by Tong Ren Tang Holdings or other members of the Tong Ren Tang Group to the Group
“Renewed Master Lease Framework Agreement”	a renewed master lease framework agreement dated 30 December 2022 entered into between the Company and Tong Ren Tang Holdings in respect of the leasing of certain premises by Tong Ren Tang Holdings or other members of the Tong Ren Tang Group to the Group
“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 are listed on the Main Board of the Stock Exchange
“connected person”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Directors”	the directors of the Company
“Existing Leases”	the existing lease(s) entered into between the members of the Tong Ren Tang Group and the members of the Group under the Existing Master Lease Framework Agreement
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Group”	the Company and its subsidiaries (either directly owned or indirectly owned)

“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Leases”	the Existing Leases, and such other new leases which may be entered into by members of the Group with the members of the Tong Ren Tang Group under the Renewed Master Lease Framework Agreement from time to time
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“PRC”	the People's Republic of China and for the purpose of this announcement, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company
“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 the Group)
“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
“%”	per cents.

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

Hong Kong, 30 December 2022

As at the date of this announcement, the composition of the Board is as follows:

Executive Directors:

Ms. Ding Yong Ling (*Chairman*)
Mr. Chen Fei
Ms. Lin Man
Ms. Feng Li

Independent Non-executive Directors:

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