

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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)

**(I) CONTINUING CONNECTED TRANSACTIONS REGARDING
THE RENEWED TRT GROUP PRC DISTRIBUTION
FRAMEWORK AGREEMENT;
(II) CONTINUING CONNECTED TRANSACTIONS REGARDING
THE RENEWED TRT TECH PRC DISTRIBUTION
FRAMEWORK AGREEMENT;
AND
(III) 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 6 to 21 of this circular and a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 22 to 23 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 24 to 35 of this circular. This circular is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (cm.tongrentang.com).

A notice convening the EGM to be held at Meeting Room S226-227 (Harbour Road Entrance), Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong on Tuesday, 14 March 2023 at 10:30 a.m., is set out on pages 41 to 42 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, 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.

This circular, for which the directors of the Company 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 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 MEASURE 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
- Compulsory wearing of surgical face masks (please bring your own)
- No provision of refreshments and corporate gifts

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.

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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 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 (a) do not comply with the precautionary measures above; and (b) have flu-like symptoms 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.

DEFINITIONS

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

| | |
|---|---|
| “associate” | has the meaning ascribed thereto under the Listing Rules |
| “Board” | the board of Directors |
| “Chinese Medicine Products” | Chinese medicines, healthcare products, Chinese herbs and raw materials for production of Chinese medicines and healthcare products but excluding Owned Products |
| “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 persons” | has the meaning ascribed thereto under the Listing Rules |
| “controlling shareholders” | has the meaning ascribed thereto under the Listing Rules |
| “Directors” | the directors of the Company |
| “EGM” | the extraordinary general meeting of the Company to be convened to, among other things, consider and, if thought fit, approve the Renewed PRC Distribution Framework Agreements and the proposed annual caps contemplated thereunder |
| “Existing TRT Group PRC Distribution Framework Agreement” | an 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 purchase the Owned Products from the Group and then distribute the same to, among others, retailers or end-users in the PRC |
| “Existing TRT Tech PRC Distribution Framework Agreement” | an existing 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 Products from the Group and then distribute the same to, among others, distributors, retailers or end-users in the PRC or use them for the purpose of production |
| “GLSPC” | Sporoderm-broken Ganoderma Lucidum Spores Powder Capsule manufactured by the Group |

DEFINITIONS

| | |
|-------------------------------|---|
| “Group” | the Company and its subsidiaries (either directly owned or indirectly owned) |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “HK\$” | Hong Kong dollar, the lawful currency of Hong Kong |
| “Independent Board Committee” | the independent board committee of the Company comprising all the independent non-executive Directors, namely Mr. Tsang Yok Sing, Jasper, Mr. Zhao Zhong Zhen and Mr. Chan Ngai Chi, formed for the purpose of advising the Independent Shareholders in respect of the terms of the Renewed PRC Distribution Frameworks Agreements (including the proposed annual caps) |
| “Independent Shareholders” | Shareholders other than Tong Ren Tang Holdings, Tong Ren Tang Technologies and their associates (excluding the Group) |
| “Latest Practicable Date” | 20 February 2023, 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 (as amended from time to time) |
| “Model Code” | Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 of the Listing Rules |
| “Owned Products” | Chinese medicine and/or healthcare products to be researched, developed and manufactured by the Group from time to time, including the Chinese medicine and/or healthcare products containing ganoderma lucidum or ganoderma lucidum spore as raw materials to be researched, developed and manufactured by the Group (including GLSPC), but for the avoidance of doubt, excluding Angong Niu Huang Wan |
| “PRC” | the People’s Republic of China and for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan |
| “Products” | collectively, the Chinese Medicine Products and the Owned Products |

DEFINITIONS

| | |
|--|---|
| “Renewed PRC Distribution Framework Agreements” | collectively, the Renewed TRT Group PRC Distribution Framework Agreement and the Renewed TRT Tech PRC Distribution Framework Agreement |
| “Renewed TRT Group PRC Distribution Framework Agreement” | a new framework agreement dated 20 February 2023 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 Products from the Group and then distribute the same to, among others, distributors, retailers or end-users in the PRC or use them for the purpose of production |
| “Renewed TRT Tech PRC Distribution Framework Agreement” | A new framework agreement dated 20 February 2023 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 continue to purchase the Products from the Group and then distribute the same to, among others, distributors, retailers or end-users in the PRC or use them for the purpose of production |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Sales Framework Agreement” | the sales framework agreement dated 22 September 2022 entered into between the Company and Tong Ren Tang Ltd. in relation to the sale and purchase of the Chinese Medicine Products |
| “SFO” | Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong |
| “Shareholders” | the shareholders of the Company |
| “Somerley” or “Independent Financial Adviser” | Somerley Capital Limited, a corporation licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Renewed PRC Distribution Framework Agreements (including the proposed annual caps) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |

DEFINITIONS

| | |
|------------------------------------|--|
| “Tong Ren Tang Group” | Tong Ren Tang Holdings, its subsidiaries (either directly owned or indirectly owned), its jointly-controlled entities and its associates (other than Tong Ren Tang Technologies and its subsidiaries) |
| “Tong Ren Tang Holdings” | China Beijing Tong Ren Tang Group Co., Ltd., a state-owned enterprise established in the PRC on 17 August 1992 and is the ultimate controlling shareholder of the Company |
| “Tong Ren Tang Ltd.” | Beijing Tong Ren Tang Company Limited, a joint stock limited company established in the PRC on 18 June 1997, the shares of which have been listed on the Shanghai Stock Exchange since 1997 and is the intermediate holding company of the Company |
| “Tong Ren Tang Ltd Group” | Tong Ren Tang Ltd., its subsidiaries (either directly owned or indirectly owned), its jointly controlled entities and its associates (other than Tong Ren Tang Technologies Co. Ltd. and its subsidiaries) |
| “Tong Ren Tang Technologies” | Tong Ren Tang Technologies Co. Ltd., a joint stock limited company established in the PRC on 22 March 2000, the H shares of which are listed on the Stock Exchange and is the immediate holding company of the Company |
| “Tong Ren Tang Technologies Group” | Tong Ren Tang Technologies, and its subsidiaries (either directly owned or indirectly owned, other than the Group) |
| “%” | per cents. |

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. Chen Fei

Ms. Lin Man

Ms. Feng Li

Registered Office:

Room 1405–1409

Office Tower, Convention Plaza

1 Harbour Road

Wanchai, Hong Kong

Independent non-executive Directors:

Mr. Tsang Yok Sing, Jasper

Mr. Zhao Zhong Zhen

Mr. Chan Ngai Chi

23 February 2023

To the Shareholders

Dear Sir or Madam,

**(I) CONTINUING CONNECTED TRANSACTIONS REGARDING
THE RENEWED TRT GROUP PRC DISTRIBUTION
FRAMEWORK AGREEMENT;
(II) CONTINUING CONNECTED TRANSACTIONS REGARDING
THE RENEWED TRT TECH PRC DISTRIBUTION
FRAMEWORK AGREEMENT;
AND
(III) NOTICE OF EGM**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 20 February 2023 in relation to entering into the Renewed TRT Group PRC Distribution Framework Agreement and the Renewed TRT Tech PRC Distribution Framework Agreement by the Company with each of the Tong Ren Tang Holdings and the Tong Ren Tang Technologies, respectively.

LETTER FROM THE BOARD

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

2. THE RENEWED PRC DISTRIBUTION FRAMEWORK AGREEMENTS

(I) The Renewed TRT Group PRC Distribution Framework Agreement

References are made to the announcement of the Company dated 2 December 2019 and 6 November 2020 in relation to, inter alia, the continuing connected transactions and the revision of the annual caps contemplated under the Existing TRT Group PRC Distribution Framework Agreement with Tong Ren Tang Holdings.

As the Existing TRT Group PRC Distribution Framework Agreement has expired on 31 December 2022, the Company has entered into the Renewed TRT Group PRC Distribution Framework Agreement with Tong Ren Tang Holdings on 20 February 2023 to renew the PRC distribution arrangement for a further term of approximately three years ending 31 December 2025. Pursuant to the Renewed TRT Group PRC Distribution Framework Agreement, the Company had agreed (i) to sell the Products to the Tong Ren Tang Group and the Tong Ren Tang Group may, by acting as the non-exclusive distributor of the Group, distribute the same to, among others, distributors, retailers or end-users in the PRC or use them for the purpose of production; and (ii) to expand the scope of products to be sold under the Existing TRT Group PRC Distribution Framework Agreement by adding Chinese Medicine Products. The Company also resolved to obtain the proposed annual caps for the transactions contemplated under the Renewed TRT Group PRC Distribution Framework Agreement for the three years ending 31 December 2025 in order to comply with the Listing Rules.

The Renewed TRT Group PRC Distribution Framework Agreement

| | | |
|----------------|---|--|
| Date | : | 20 February 2023 |
| Parties | : | (1) the Company; and (2) Tong Ren Tang Holdings |
| Term | : | The Renewed TRT Group PRC Distribution Framework Agreement shall be from 20 February 2023 to 31 December 2025 (both days inclusive) and shall be effective upon the approval of the Independent Shareholders at the EGM. |

LETTER FROM THE BOARD

- Major terms and conditions** :
- The Company agreed that the Tong Ren Tang Group by acting as the non-exclusive distributor of the Group, may purchase the Products from the Group and may distribute the same to, among others, distributors, retailers or end-users in the PRC or use them for the purpose of production;
 - Details and the quantities of the Products shall be determined by both parties in accordance with the then market conditions and shall be stated in separate implementation agreements within the ambit of the Renewed TRT Group PRC Distribution Framework Agreement.
- Pricing policy** :
- Price for the Products shall be determined based on 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 Group shall: (i) compare the prices of the major Products supplied to the Tong Ren Tang Group with the prices for similar products as obtained by the Group on the market from time to time representing market prices for these products; and (ii) at least, on a quarterly basis, compare the price and sales terms of the purchase orders of the major Products supplied to the Tong Ren Tang Group with those entered into with and/or obtained from at least two independent third parties. After conducting the above mechanisms, the Group shall determine the prices and sales terms of the Products sold to members of Tong Ren Tang Group which shall not be more beneficial than those sold to independent third parties under the same condition;
 - In addition, price for the Owned Products is also determined based on 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 three years, which shall not be less than 50%.

LETTER FROM THE BOARD

The consideration for the Products sold by the Group under the Renewed TRT Group PRC Distribution Framework Agreement shall be settled by the Tong Ren Tang Group within three months from the date of their receipt of the Products.

Implementation Agreements

Members of the Group and members of the Tong Ren Tang Group will enter into, from time to time and as necessary, separate implementation agreements for each of the specific transactions contemplated under the Renewed TRT Group PRC Distribution Framework Agreement during the term thereof. Each implementation agreement will set out the details of the products supplied, and the specifications, quantities, prices and other relevant terms thereof. Any such implementation agreements will be within the ambit of the Renewed TRT Group 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 Proposed Annual Caps

The Existing TRT Group PRC Distribution Framework Agreement only covered sales of the Owned Products by the Group to Tong Ren Tang Group, while the sales of Chinese Medicine Products to Tong Ren Tang Ltd Group (being members of the Tong Ren Tang Group) only commenced in 2022 under the Sales Framework Agreement. Set out below is the aggregate historical amounts received/receivable by the Group in respect of its sales of the Owned Products for the Tong Ren Tang Group's distribution to, among others, retailers or end-users in the PRC for the two years ended 31 December 2021 and nine months ended 30 September 2022 as well as the previous annual caps (exclusive of value-added tax in the PRC) as revised based on the announcement of the Company dated 6 November 2020 under the Existing TRT Group PRC Distribution Framework Agreement:

| | Year ended 31 December | | Year ended 31 December | | Nine | Year ended |
|---|------------------------|--------------|------------------------|--------------|-----------------------|-----------------------|
| | 2020 | | 2021 | | months ended | 31 December |
| | Actual | Historical | Actual | Historical | 30 September | 2022 |
| | amounts | Cap | amounts | Cap | amounts | Cap |
| | <i>(HK\$'million)</i> | | <i>(HK\$'million)</i> | | <i>(HK\$'million)</i> | <i>(HK\$'million)</i> |
| | (Audited) | | (Audited) | | (Unaudited) | |
| Amounts received/receivable under the Existing TRT Group PRC Distribution Framework Agreement (exclusive of value-added tax in the PRC) | <u>338.0</u> | <u>363.0</u> | <u>92.1</u> | <u>430.0</u> | <u>53.5</u> | <u>470.0</u> |

LETTER FROM THE BOARD

The low utilisation of the historical annual caps for the year ended 31 December 2021 and the nine months ended 30 September 2022 was due to the adjustment of the Group's sales strategy after considering that there were long overdue receivables from certain subsidiaries, jointly-controlled entities and associates of the Tong Ren Tang Group. Pursuant to the implementation agreements entered into between Tong Ren Tang Group and the Group under the Existing TRT Group PRC Distribution Framework Agreement, the Group had granted to the Tong Ren Tang Group a payment term of three months. As at 31 December 2020, the Group had recorded an amount of HK\$187,570,000 from Tong Ren Tang Group which was past due. Although the Directors were of the view that the overdue receivables did not pose significant credit risks to the Group given the Group had implemented stringent internal control measures, the sales to certain members of Tong Ren Tang Group was halted and the Group had taken various measures, including but not limited to, issuing formal demand letters and holding discussion with the management of the Tong Ren Tang Group. The overdue receivables were subsequently fully settled as at 31 December 2021. Details of the overdue receivables and the relevant settlement are set out in the announcement of the Company dated 31 December 2021.

The Company entered into the Sales Framework Agreement with Tong Ren Tang Ltd. (a controlling shareholder of the Company) on 22 September 2022. Pursuant to the Sales Framework Agreement, members of the Tong Ren Tang Ltd Group will procure from the Group the Chinese Medicine Products. For illustration of the historical amounts of sales of the Chinese Medicine Products by the Group to Tong Ren Tang Ltd Group, for the nine months ended 30 September 2022, the Group sold to the Tong Ren Tang Group the Chinese Medicine Products in the amount of HK\$7.0 million.

The proposed annual caps (exclusive of value-added tax in the PRC) under the Renewed TRT Group PRC Distribution Framework Agreement for distribution of the Products (including both the Owned Products and the Chinese Medicine Products) for each of the three years ending 31 December 2025 are set out below:

| | For the year ending 31 December | | |
|--|--|-----------------------|-----------------------|
| | 2023 | 2024 | 2025 |
| | <i>(HK\$'million)</i> | <i>(HK\$'million)</i> | <i>(HK\$'million)</i> |
| Proposed annual caps (exclusive of value- added tax in the PRC) | <u>330.0</u> ^(Note) | <u>380.0</u> | <u>436.0</u> |

Note: From 1 January 2023 and up to the date of this circular, Tong Ren Tang Group had not purchased any Products from the Group.

LETTER FROM THE BOARD

The proposed annual caps for the three years ending 31 December 2025 set out above are determined based on the following factors which are applicable to the Renewed TRT Group PRC Distribution Framework Agreement:

- (a) the historical figures of the relevant transactions and the historical annual caps for each of the Owned Products and the Chinese Medicine Products as disclosed above. Having considered that the long overdue receivables had been fully recovered as at 31 December 2021 and that the Company has a set of comprehensive internal control measures in monitoring and collecting receivables under the Renewed TRT Group PRC Distribution Framework Agreement, the Group expects to resume normal trading with Tong Ren Tang Group for the three years ending 31 December 2025;
- (b) an estimated year-on-year growth rate of 15% for the Products for the three years ending 31 December 2025;
- (c) the estimated sales of potential new Owned Products and the Chinese Medicine Products for the year ending 31 December 2023;
- (d) the expected price of the Products for the three years ending 31 December 2025; and
- (e) a buffer for any unexpected increase of the sales amount, the current market condition, and for any potential appreciation in the RMB against HK\$. The buffer projection is assumed solely for determining the annual 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 Group.

LETTER FROM THE BOARD

(II) The Renewed TRT Tech PRC Distribution Framework Agreement

Reference is made to the announcement of the Company dated 13 May 2020 in relation to, inter alia, the continuing connected transactions contemplated under the Existing TRT Tech PRC Distribution Framework Agreement with Tong Ren Tang Technologies.

As the Existing TRT Tech PRC Distribution Framework Agreement has expired on 31 December 2022, the Company has entered into the Renewed TRT Tech PRC Distribution Framework Agreement with Tong Ren Tang Technologies on 20 February 2023 to renew the PRC distribution arrangement for a further term of approximately three years ending 31 December 2025. The Company also resolved to obtain the proposed annual caps for the transactions contemplated under the Renewed TRT Tech PRC Distribution Framework Agreement for the three years ending 31 December 2025 in order to comply with the Listing Rules.

The Renewed TRT Tech PRC Distribution Framework Agreement

- Date** : 20 February 2023
- Parties** : (1) the Company; and
(2) Tong Ren Tang Technologies
- Term** : The Renewed TRT Tech PRC Distribution Framework Agreement shall be from 20 February 2023 to 31 December 2025 (both days inclusive) and shall be effective upon the approval of the Independent Shareholders at the EGM.
- Major terms and conditions** :
- The Company agreed that the Tong Ren Tang Technologies Group by acting as the non-exclusive distributor of the Group, may purchase the Products from the Group and may distribute the same to, among others, distributors, retailers or end-users in the PRC or use them for the purpose of production;
 - Details and the quantities of the Products shall be determined by both parties in accordance with the then market conditions and shall be stated in separate implementation agreements within the ambit of the Renewed TRT Tech PRC Distribution Framework Agreement.

LETTER FROM THE BOARD

- Pricing policy** :
- Price for the Products shall be determined based on 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 Group shall: (i) compare the prices of the major Products supplied to the Tong Ren Tang Technologies Group with the prices for similar products as obtained by the Group on the market from time to time representing market prices for these products; and (ii) at least, on a quarterly basis, compare the prices and sales terms of the purchase orders of the major Products supplied to the Tong Ren Tang Technologies Group with those entered into with and/or obtained from at least two independent third parties. After conducting the above mechanisms, the Group shall determine the prices and sales terms of the Products sold to members of the Tong Ren Tang Technologies Group which shall be comparable to those sold to independent third parties under the same condition;
 - In addition, price for the Owned Products shall be determined based on 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 three years, which shall not be less than 50%.

The consideration for the Products sold by the Group under the Renewed TRT Tech PRC Distribution Framework Agreement shall be settled by the Tong Ren Tang Technologies Group within three months from the date of their receipt of the Products.

LETTER FROM THE BOARD

Implementation Agreements

Members of the Group and members of the Tong Ren Tang Technologies Group will enter into, from time to time and as necessary, separate implementation agreements for each of the specific transactions contemplated under the Renewed TRT Tech PRC Distribution Framework Agreement during the term thereof. Each implementation agreement will set out the details of the products supplied, and the specifications, quantities, prices and other relevant terms thereof. Any such implementation agreements will be within the ambit of the Renewed TRT Tech 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 Proposed Annual Caps

Set out below is the aggregate historical amounts received/receivable by the Group in respect of its sales of the Products for the Tong Ren Tang Technologies Group's distribution to, among others, distributors, retailers or end-users in the PRC for the two years ended 31 December 2021 and nine months ended 30 September 2022 as well as the previous annual caps (exclusive of value-added tax in the PRC) under the Existing TRT Tech PRC Distribution Framework Agreement:

| | Year ended 31 December | | | | Nine months ended | Year ended |
|---|---|-------------------|---|-------------------|---|--|
| | 2020 | | 2021 | | 30 September 2022 | 31 December 2022 |
| | Actual amounts <i>(HK\$'million)</i> (Audited) | Historical Cap | Actual amounts <i>(HK\$'million)</i> (Audited) | Historical Cap | Actual amounts <i>(HK\$'million)</i> (Unaudited) | Historical Cap <i>(HK\$'million)</i> |
| Amounts received/receivable under the Existing TRT Tech PRC Distribution Framework Agreement (exclusive of value-added tax in the PRC) | 8.7 | 50.0 | 0.7 | 57.0 | 1.8 | 65.0 |

The low utilisation of the historical annual caps was because the Group had adjusted its sales strategy on customer distribution to e-commerce distributors since 2020 and had focused on sales of the Products through the e-commerce sales channel, to which the Group had prioritised its sales effort and the Products were allocated to such sales channel as it was at its early stage of operation. It was also noted that the Tong Ren Tang Technologies Group had also adjusted its sales strategies in respect of the Products.

LETTER FROM THE BOARD

The proposed annual caps (exclusive of value-added tax in the PRC) under the Renewed TRT Tech PRC Distribution Framework Agreement for the distribution of the Products for each of the three years ending 31 December 2025 are set out below:

| | For the year ending 31 December | | |
|---|--|-----------------------|-----------------------|
| | 2023 | 2024 | 2025 |
| | <i>(HK\$'million)</i> | <i>(HK\$'million)</i> | <i>(HK\$'million)</i> |
| Proposed annual caps (exclusive of value-added tax in the PRC) | <u>74.0</u> ^{<i>(Note)</i>} | <u>85.0</u> | <u>98.0</u> |

Note: From 1 January 2023 and up to the date of this circular, Tong Ren Tang Technologies Group had not purchased any Products from the Group.

The proposed annual caps for the three years ending 31 December 2025 set out above are determined based on the following factors which are applicable to the Renewed TRT Tech PRC Distribution Framework Agreement:

- (a) the historical figures of the relevant transactions and the historical annual caps for the Products as disclosed above;
- (b) despite the low utilisation of the historical annual caps under the Existing TRT Tech PRC Distribution Framework Agreement, the Group had discussed with the Tong Ren Tang Technologies Group and was given to understand that there will be an expected increase in demand for the Products due to its marketing and sales strategies. The e-commerce sales channel had been developed for more than two years and had been in a growing status. The Group expects to optimise both online and offline platforms in the coming years to boost sales of the Group. There is an estimated year-on-year growth rate of 15% for the Products for the three years ending 31 December 2025;
- (c) the estimated sales of potential new Owned Products and the Chinese Medicine Products for the year ending 31 December 2023;
- (d) the expected price of the Products for the three years ending 31 December 2025; and
- (e) a buffer for any unexpected increase of the sales amount, the current market condition, and for any potential appreciation in the RMB against HK\$. The buffer projection is assumed solely for determining the annual 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.

LETTER FROM THE BOARD

Reasons for Entering into the Renewed PRC Distribution Framework Agreements

The Directors believe that the Owned Products' continuous availability for sale to the members of the Tong Ren Tang Group and the Tong Ren Tang Technologies Group would be in the interests of the Company and its Shareholders as well as the consumers as a whole. Other than those under the Renewed PRC Distribution Framework Agreements, the Company also entered into distributorship agreements with other PRC distributors, which are independent of and not connected with the Company and its connected persons, the terms of which are substantially the same as those under the Renewed PRC Distribution Framework Agreements. Furthermore, the Directors are also of the view that the expansion of the scope of products under the Renewed TRT Group PRC Distribution Framework Agreement by including the Chinese Medicine Products will further enhance the revenue of the Group in respect of the sales of the Chinese Medicine Products and will be beneficial to the development of the Group.

The sale of the Products to the members of the Tong Ren Tang Group and the Tong Ren Tang Technologies Group would be beneficial to the development of the business of the Group as well as the business of the Tong Ren Tang Group and the Tong Ren Tang Technologies Group, whose sales network is operating under the brand of Tong Ren Tang which is targeted to gain dominant position in respect of sales of Chinese medicine and healthcare products in the PRC. The sales of the Products through the network of the Tong Ren Tang Group and the Tong Ren Tang Technologies Group will also provide additional protection to consumers to ensure that no products of substandard will be purchased by the consumers in the distribution network operated by the Tong Ren Tang Group and the Tong Ren Tang Technologies Group in the PRC.

The Directors (including the independent non-executive Directors) are of the view that the terms of each of the Renewed TRT Group PRC Distribution Framework Agreement and the Renewed TRT Tech PRC Distribution Framework Agreement (i) have been negotiated on an arm's length basis; (ii) have been conducted and will be conducted on normal commercial terms or better; (iii) are entered into in the ordinary and usual course of business of the Group; and (iv) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, there is no other continuing transaction entered into between any member of the Group and the Tong Ren Tang Group and the Tong Ren Tang Technologies Group and their ultimate beneficial owner(s) or otherwise related, which would be, together with the transactions contemplated under the Renewed PRC Distribution Framework Agreements, aggregated under the Listing Rules.

LETTER FROM THE BOARD

Internal Control Measures

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

- (i) the responsible persons of the relevant business departments of the Group shall monitor the performance of the implementation agreements and the prices of the Products sold to the members of the Tong Ren Tang Group and the Tong Ren Tang Technologies Group on a monthly basis (or more frequently if it is determined necessary) to ensure that the prices of the Products are determined in strict accordance with the pricing policies as set out in the Renewed PRC Distribution Framework Agreements. If any revision of terms or any price adjustment is required or if any imminent or possible exceeding of the annual caps is discovered due to change of actual circumstances, the relevant business departments are required to communicate to the finance department of the Company which will consider to initiate the appropriate approval process. Relevant business departments shall also regularly report the actual transaction amount to the finance department of the Company;
- (ii) the finance department of the Company is responsible for monitoring, collecting, and evaluating the specific information in relation to the implementation agreements under the Renewed PRC Distribution Framework Agreements (including but not limited to the pricing terms of each specific transaction, payment arrangement and the actual transaction amount) to ensure the prices of the Products charged by the Group are in compliance with the pricing policies and the aggregate transaction amount does not exceed the proposed annual caps. In particular, based on the actual transaction amount regularly reported by the relevant business departments of the Company, the finance department will collect and add up the transaction amount of the continuing connected transactions. The finance department maintains a database, which is updated monthly (or more frequently if it is determined necessary), to store all the information for the Products sold to the members of the Tong Ren Tang Group and the Tong Ren Tang Technologies Group. Such database allows the relevant business departments of the Company to keep up-to-date records of the selling prices and transaction records for the Products sold to the members of the Tong Ren Tang Group and the Tong Ren Tang Technologies Group. The finance department will check the information monthly (or more frequently if it is determined necessary) to ensure reasonableness of the continuing connected transactions;

LETTER FROM THE BOARD

- (iii) the independent non-executive Directors and the auditor of the Company will on a regular basis be provided with (i) the Renewed PRC Distribution Framework Agreements; (ii) the agreements entered into between the Group and independent third parties for the distribution of the same type of the Products; and (iii) separate implementation agreements entered into between the Group and the Tong Ren Tang Group and the Tong Ren Tang Technologies Group as well as those between the Group and independent third parties in respect of distribution of the 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 Renewed PRC Distribution Framework Agreements are conducted on normal commercial terms or better, and are fair and reasonable. The auditor of the Company will review and confirm the transactions contemplated under the Renewed PRC Distribution Framework Agreements are conducted in accordance with the terms of the Renewed PRC Distribution Framework Agreements on an annual basis; and
- (iv) the finance department, on a regular basis, will monitor the status of the collection of the receivables under individual purchase agreements and that the members of the Tong Ren Tang Group and the Tong Ren Tang Technologies Group shall settle the receivables in accordance with the terms set out in the Renewed PRC Distribution Framework Agreements.

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 abovementioned review procedures against the detailed and explicit assessment criteria can ensure that the transactions will be executed in compliance with the pricing principles stipulated in the Renewed PRC Distribution Framework Agreements. The Directors (including the independent non-executive Directors) are of the view that the Company has implemented effective internal control measures, and such methods and procedures can ensure that the transactions contemplated under the Renewed PRC Distribution Framework Agreements will be conducted on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

Listing Rules Implications

As at the Latest Practicable Date, 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 TRT Group PRC Distribution Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As at the Latest Practicable Date, Tong Ren Tang Technologies, who is interested in approximately 38.05% of the issued share capital of the Company, is a controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Renewed TRT Tech PRC Distribution Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) of the proposed annual caps of the transactions contemplated under each of the Renewed TRT Group PRC Distribution Framework Agreement and the Renewed TRT Tech PRC Distribution Framework Agreement exceed 5%, the transactions contemplated thereunder are subject to reporting, announcement, circular, annual review as well as the Independent Shareholders' approval requirements under the Listing Rules.

Ms. Ding Yong Ling (who is the director and the deputy general manager of Tong Ren Tang Holdings), the Chairman and an executive Director of the Company, is considered to have material interests in the transactions contemplated under the Renewed PRC Distribution 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 the transactions contemplated under the Renewed PRC Distribution Framework Agreements.

Ms. Feng Li (who is the deputy general manager and the secretary to the board of directors of Tong Ren Tang Ltd.), an executive Director of the Company, is considered to have material interests in the transactions contemplated under the Renewed PRC Distribution Framework Agreements by virtue of her position in Tong Ren Tang Ltd., for good corporate governance, Ms. Feng Li has abstained from voting on the relevant resolutions in the Board meeting to approve the transactions contemplated under the Renewed PRC Distribution Framework Agreements.

Save as disclosed, there is no other Director who has a material interest in the transactions contemplated under the Renewed PRC Distribution Framework Agreements.

LETTER FROM THE BOARD

General Information

The Company

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

Tong Ren Tang Holdings

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

Tong Ren Tang Technologies

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

3. EGM

A notice convening the EGM to be held at Meeting Room S226-227 (Harbour Road Entrance), Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong on Tuesday, 14 March 2023 at 10:30 a.m., is set out on pages 41 to 42 of this circular at which an ordinary resolutions will be proposed for the Independent Shareholders to consider and, if thought fit, to approve the terms of the Renewed PRC Distribution Framework Agreements and the proposed annual caps.

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 the Renewed PRC Distribution Framework Agreements and the respective annual caps contemplated therein. As of the Latest Practicable Date, Tong Ren Tang Holdings and its associates, who directly and indirectly, held 600,000,000 shares of the Company (representing approximately 71.67% of the total number of shares in issue of the Company), control or are entitled to control over the voting right in respect of their shares in the Company.

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

LETTER FROM THE BOARD

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

4. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out in this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the terms of the Renewed PRC Distribution Framework Agreements and the proposed annual caps; and (ii) the letter from the Independent Financial Adviser set out in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Renewed PRC Distribution Framework Agreements 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 each of the Renewed TRT Group PRC Distribution Framework Agreement and the Renewed TRT Tech PRC Distribution Framework Agreement (including the proposed annual caps) (a) have been negotiated on an arm's length basis; (b) will be conducted on normal commercial terms or better; (c) are entered into in the ordinary and usual course of business of the Group; and (d) are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Renewed PRC Distribution Framework Agreements (including the proposed annual caps) by way of poll.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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



BEIJING TONG REN TANG CHINESE MEDICINE COMPANY LIMITED

北京同仁堂國藥有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 3613)

23 February 2023

To the Independent Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS REGARDING
(I) THE RENEWED TRT GROUP PRC DISTRIBUTION
FRAMEWORK AGREEMENT;
AND
(II) THE RENEWED TRT TECH PRC DISTRIBUTION
FRAMEWORK AGREEMENT**

We refer to a circular (the “**Circular**”) of the Company dated 23 February 2023 of which this letter forms part. Terms used in this letter have the same meaning as defined in the Circular unless the context otherwise requires.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of the Renewed PRC Distribution Framework Agreements and the proposed annual caps and the advice of the Independent Financial Adviser in relation to the Renewed PRC Distribution Framework Agreements and the proposed annual caps thereto as set out on pages 24 to 35 of the Circular, we are of the opinion that the terms of each of the Renewed TRT Group PRC Distribution Framework Agreement and the Renewed TRT Tech PRC Distribution Framework Agreement (together with the proposed annual caps) are (i) fair and reasonable so far as the Independent Shareholders are concerned; (ii) on normal commercial terms or better and in the ordinary and usual business of the Group; and (iii) in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter of advice from the Independent Financial Adviser set out on pages 24 to 35 of 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 Renewed PRC Distribution Framework Agreements (including the proposed annual caps).

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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



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

23 February 2023

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTION REGARDING (I) THE RENEWED TRT GROUP PRC DISTRIBUTION FRAMEWORK AGREEMENT; AND (II) THE RENEWED TRT TECH PRC DISTRIBUTION FRAMEWORK AGREEMENT

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the Renewed PRC Distribution Framework Agreements and the transactions contemplated thereunder together with the proposed annual caps of the transactions under the Renewed PRC Distribution Framework Agreements for each of the three years ending 31 December 2025 (the “**Annual Caps**”). Details of the Renewed PRC Distribution Framework Agreements (together with the Annual Caps) are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 23 February 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context requires otherwise.

On 20 February 2023, the Company entered into the Renewed PRC Distribution Framework Agreements with Tong Ren Tang Holdings and Tong Ren Tang Technologies for a period from 20 February 2023 to 31 December 2025 which will become effective upon the approval of the Independent Shareholders at the EGM, pursuant to which the Tong Ren Tang Group and Tong Ren Tang Technologies Group, as non-exclusive distributors of the Group, would purchase the Products from the Group and may distribute the same to, among others, distributors, retailers or end-users in the PRC and use them for the purpose of their production.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the letter from the Board, 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 TRT Group PRC Distribution Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As stated in the letter from the Board, Tong Ren Tang Technologies, who is interested in approximately 38.05% of the issued share capital of the Company, is also a controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Renewed TRT Tech PRC Distribution Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) of the proposed annual caps of the transactions contemplated under each of the Renewed PRC Distribution Framework Agreements exceed 5%, the transactions contemplated thereunder are subject to reporting, announcement, circular, annual review, as well as the independent shareholders' approval requirements under the Listing Rules.

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

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

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

We have relied on the information and facts supplied, and the opinions expressed to us, by management of the Company 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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

1. Information on the 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 treatments.

2. Information on Tong Ren Tang Holdings, the Tong Ren Tang Group and Tong Ren Tang Technologies

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..

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

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

As the Existing TRT Group PRC Distribution Framework Agreement and the Existing TRT Technologies PRC Distribution Framework Agreement has expired on 31 December 2022, the Company entered into the Renewed PRC Distribution Framework Agreements with Tong Ren Tang Holdings and Tong Ren Tang Technologies, respectively, on 20 February 2023 for a further term of approximately three years to renew the PRC distribution arrangement. Pursuant to the Renewed PRC Distribution Framework Agreements, the Tong Ren Tang Group and Tong Ren Tang Technologies, by acting as the non-exclusive distributors of the Group, would purchase the Products from the Group and may distribute the same to, among others, distributors, retailers or end-users in the PRC and use them for the purpose of their production.

On 22 September 2022, the Company announced that the Company had entered into a sales framework agreement with Tong Ren Tang Ltd., pursuant to which members of the Tong Ren Tang Ltd Group will procure from the Group the Chinese Medicine Products

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

for a period from 22 September to 31 December 2022, details of which are set out in the Company's announcement dated 22 September 2022. As stated in the letter from the Board, the scope of products to be sold under the Renewed TRT Group PRC Distribution Framework Agreement has been expanded to include Chinese Medicine Products.

The Directors believe that the Owned Products continuous availability for sale to the members of the Tong Ren Tang Group and the Tong Ren Tang Technologies Group would be in the interests of the Company and its Shareholders as well as the consumers as a whole. Other than the Renewed PRC Distribution Framework Agreements, the Company also entered into distributorship agreements with other PRC distributors, which are independent of and not connected with the Company and its connected persons, the terms of which are substantially the same as those under the Renewed PRC Distribution Framework Agreements. Furthermore, the Directors are also of the view that the expansion of the scope of products under the Renewed TRT Group PRC Distribution Framework Agreement by including the Chinese Medicine Products will further enhance the revenue of the Group in respect of the sales of the Chinese Medicine Products and will be beneficial to the development of the Group.

The sale of the Products to the members of the Tong Ren Tang Group and the Tong Ren Tang Technologies Group would be beneficial to the development of the business of the Group as well as the business of the Tong Ren Tang Group and the Tong Ren Tang Technologies Group, whose sales network is operating under the brand of Tong Ren Tang which is targeted to gain dominant position in respect of sales of Chinese medicine and healthcare products in the PRC. The sale of the Products through the network of the Tong Ren Tang Group and the Tong Ren Tang Technologies Group will also provide an additional protection to consumers to ensure that no substandard products will be purchased by the consumers in the distribution network operated by the Tong Ren Tang Group and the Tong Ren Tang Technologies Group in the PRC.

Based on the above, we concur with the Directors' view that the entering into of the Renewed PRC Distribution 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.

4. Principal terms of the Renewed PRC Distribution Framework Agreements

Pursuant to the Renewed PRC Distribution Framework Agreements, the Company agreed that the Tong Ren Tang Group and the Tong Ren Tang Technologies Group, by acting as the non-exclusive distributors of the Group, may purchase the Products from the Group and may distribute the same to, among others, distributors, retailers or end-users in the PRC or use them for the purpose of their production. Details and the quantities of the Products shall be determined by both parties in accordance with the then market conditions and shall be stated in the separate implementation agreements within the ambit of the Renewed PRC Distribution Framework Agreements. The Renewed PRC Distribution Framework Agreements shall be for a period from 20 February 2023 to 31 December 2025 and shall be effective upon the approval of the Independent Shareholders at the EGM, which is expected to be on 14 March 2023.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Price for the Products shall be determined based on the prevailing market price, which is with reference to the price and sales terms of similar products in the industry and in the PRC market at the time when a separate implementation agreement is entered into. The Group shall, at least, on a quarterly basis compare the price and sales terms of the purchase orders of the major Products supplied to the Tong Ren Tang Group and the Tong Ren Tang Technologies Group with those entered into with and/or obtained from at least two independent third parties. The prices and sales terms of the Products sold to the Tong Ren Tang Group and the Tong Ren Tang Technologies Group shall be comparable to those sold to independent third parties under the same condition. In addition, price for the Owned Products shall be determined based on a reasonable cost plus a fair and reasonable profit margin: (a) the reasonable cost shall be determined with reference to the cost of the raw materials, the cost of labour and the manufacturing expense, etc.; and (b) the profit margin shall be determined with reference to the average gross profit rate of the Group in the previous three years, which shall not be less than 50%. The purchase price payable by the Tong Ren Tang Group and the Tong Ren Tang Technologies 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 Products shall be settled by the Tong Ren Tang Group and Tong Ren Tang Technologies within three months from the date of their receipt of the Products.

Members of the Group and members of the Tong Ren Tang Group and Tong Ren Tang Technologies Group will enter into, from time to time and as necessary, separate implementation agreements for each of the specific transactions contemplated under the Renewed PRC Distribution Framework Agreements during the term thereof. Each implementation agreement will set out the details of the products supplied, and the specifications, quantities, prices and other relevant terms thereof. Any such implementation agreements will be within the ambit of the Renewed PRC Distribution Framework Agreements and the relevant annual caps, and if exceeded, the Company will comply with the relevant Listing Rules accordingly.

We have selected and reviewed a total of 16 sample sales contracts for the Owned Products entered into with the Tong Ren Tang Group and the Tong Ren Tang Technologies Group and independent third parties in 2020, 2021 and the first eight months of 2022, which is considered to be a fair and representative sample given that such sales contracts are randomly selected. It is noted that the unit price of the Owned Products sold by the Group in each of 2020, 2021 and the first eight months of 2022 to members of the Tong Ren Tang Group and the Tong Ren Tang Technologies Group is the same as or higher than those sold to such independent third parties within the same period. Similar to the arrangement with the Tong Ren Tang Group and the Tong Ren Tang Technologies Group, the Group also entered into distributorship agreements with independent third parties to govern the terms (including pricing basis and payment terms) of the individual sales contracts to be entered into from time to time. We have reviewed all the distributorship agreements or sales contracts entered into with independent third parties in respect of the Owned Products and noted that the credit period offered to the Tong Ren Tang Group and the Tong Ren Tang Technologies Group for sale of the Owned Products falls within the range of those offered to the independent third parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company had entered into a sales framework agreement with Tong Ren Tang Ltd. in September 2022, pursuant to which members of the Tong Ren Tang Ltd Group would procure from the Group the Chinese Medicine Products. As advised by the management of Group, the Company has not sold any Chinese Medicine Products to the Tong Ren Tang Technologies Group. We have randomly selected 5 Chinese Medicine Products sold by the Group to Tong Ren Tang Ltd Group in September 2022 and compared their unit prices set out in the invoices issued to Tong Ren Tang Ltd Group with those set out in the invoices issued to independent third parties for the same Chinese Medicine Products, and noted that the unit prices of the Chinese Medicine Products sold to Tong Ren Tang Ltd Group were no less favourable than those sold to independent third parties. We have also reviewed the payment terms set out in the sales contracts in relation to Chinese Medicine Products sold to Tong Ren Tang Ltd Group and in that sold to independent third parties and noted that the credit period offered to Tong Ren Tang Ltd Group for sale of Chinese Medicine Products was the same as that offered to independent third parties.

Having considered (i) the terms of the Renewed TRT Group PRC Distribution Framework Agreement, which are basically the same (except for the expansion of products scope to include Chinese Medicine Products) as those under the Existing TRT Group PRC Distribution Framework Agreement; (ii) the terms of the Renewed TRT Tech PRC Distribution Framework Agreement, which are basically the same as those under the Existing TRT Tech PRC Distribution Framework Agreement; (iii) the unit price of the Owned Products and Chinese Medicine Products sold to members of the Tong Ren Tang Group and the Tong Ren Tang Technologies Group are the same as or higher than those sold to the independent third parties; and (iv) the credit period offered under the Renewed PRC Distribution Framework Agreements falls within the range of those with the independent third parties, we consider the terms of the Renewed PRC Distribution Framework Agreements are on normal commercial terms and fair and reasonable as far as the Company and the Independent Shareholders are concerned.

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

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| LETTER FROM THE INDEPENDENT FINANCIAL ADVISER |
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5. The Annual Caps

Set out below are the proposed Annual Caps (exclusive of value-added tax in the PRC) for each of the three years ending 31 December 2025:

| | For the financial year ending 31 December | | |
|---|--|---------------------|---------------------|
| | 2023 | 2024 | 2025 |
| | <i>HK\$'million</i> | <i>HK\$'million</i> | <i>HK\$'million</i> |
| Sale of the Products by the Group to the Tong Ren Tang Group (exclusive of value- added tax in the PRC) | 330 ⁽¹⁾⁽²⁾ | 380 ⁽¹⁾ | 436 ⁽¹⁾ |
| Sale of the Products by the Group to the Tong Ren Tang Technologies Group (exclusive of value-added tax in the PRC) | 74 ⁽¹⁾⁽²⁾ | 85 ⁽¹⁾ | 98 ⁽¹⁾ |

Notes:

1. The Annual Caps include the projected sales of (i) the Owned Products; as well as (ii) the Chinese Medicine Products.
2. From 1 January 2023 and up to the date of the circular, Tong Ren Tang Group and Tong Ren Tang Technologies Group had not purchased any Products from the Group.

As stated in the letter from the Board, the proposed Annual Caps have been determined having taken into account, amongst others, the historical transaction amounts and the year-on-year growth rates for the year ended 31 December 2021, the projected orders of the Products by the Tong Ren Tang Group and the Tong Ren Tang Technologies Group and the buffers. Shareholders should note that such projected sales volumes are assumed solely for determining the Annual Caps and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group, the Tong Ren Tang Group and Tong Ren Tang Technologies Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Tong Ren Tang Group

We have reviewed the calculation of the proposed Annual Caps for the sale of the Products to the Tong Ren Tang Group for the three years ending 31 December 2025 and we noted that they have been determined based on (i) the historical and estimated sales amounts of the Owned Products for 2022 multiplied by an estimated growth rate; (ii) historical and estimated sales amounts of the Chinese Medicine Products multiplied by an estimated growth rate; and (iii) a buffer for each year. As set out in the letter from the Board, the Existing TRT Group PRC Distribution Framework Agreement only covered sales of the Owned Products by the Group to Tong Ren Tang Group, while the sales of Chinese Medicine Products to Tong Ren Tang Ltd Group only commenced in 2022 under the Sales Framework Agreement. A summary of the actual sales of the Owned Products to the Tong Ren Tang Group for each of the year ended 31 December 2020 and 2021 and the nine months ended 30 September 2022 as extracted from the letter from the Board is set out below:

| | For the year ended 31 December | | For the nine months ended 30 September |
|-----------------------------|---|----------------------|---|
| | 2020 | 2021 | 2022 |
| | <i>HK\$' million</i> | <i>HK\$' million</i> | <i>HK\$' million</i> |
| Sales of the Owned Products | 338.0 | 92.1 | 53.5 |
| Historical caps | 363.0 | 430.0 | 470.0 ⁽¹⁾ |

Notes:

1. It refers to the annual cap for the full year of 2022.
2. The sales and historical caps do not include any sales of the Chinese Medicine Products.

We have discussed with and are advised by the management of the Group that the drop in sales of the Owned Products to the Tong Ren Tang Group in 2021 and 2022 was mainly due to the adjustments of the Group's sales strategy after having considered the long overdue receivables from certain subsidiaries, jointly-controlled entities and associates of the Tong Ren Tang Group. We noted that the Company issued a supplemental announcement to the annual report 2020 on 31 December 2021 regarding the overdue receivables, which was fully recovered as at 31 December 2021. Once the Group noted the slow repayment of the overdue receivables, it then adjusted its focus on the sale of the Owned Products through other distribution channels and the sales to certain members of Tong Ren Tang Group was halted. Therefore it recorded a substantial drop in sales of the Owned Products to the Tong Ren Tang Group in 2021–2022.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed and discussed with the management of the Group the sales projection of the Owned Products in 2022–2025. It is noted that the estimated sales in 2022 is actually based on (i) the actual sales recorded in the first nine months in 2022; and (ii) the estimated sales for the last quarter of 2022. As stated in the interim report 2022, due to the fifth wave pandemic in Hong Kong, the Group's production and research and development base in Tai Po had to suspend production from February 2022 to late April 2022. On this basis, the management of the Group estimated the sales of the Owned Products to the Tong Ren Tang Group for the last quarter of 2022 based on the average actual sales per actual number of production months in the first nine months of 2022. Hence, the projected sales of the Owned Products in 2023 is based on (i) the actual and estimated sales amounts in 2022 multiplied by an expected growth rate; and (ii) the estimated sales of potential new Owned Products to be launched in the PRC. The management of the Group has discussed with the Tong Ren Tang Group and considers that the potential new Owned Products could possibly achieve half of the projected sales of the Owned Products in 2023.

As regards the use of the expected growth rate, reference has been made by the management of the Group to the PRC official statistics. According to the National Bureau of Statistics of China, the consumption of pharmaceutical and health products per capita increased from RMB1,451 in 2017 to RMB2,115 in 2021, with year-on-year growth of 11% in 2017, 16% in 2018, 13% in 2019, -3% in 2020 and 15% in 2021. We have discussed with the management of the Group and are advised that the negative growth in 2020 might be due to the outbreak of COVID-19 in the first quarter of 2020 and the disruption of logistics services as a result of the stringent lockdown of the cities in the PRC and therefore it would be appropriate to adopt the year-on-year growth rate of the consumption of pharmaceutical and health products per capita in 2021, which is 15% (“**Estimated Growth Rate**”), for projecting the sales of the Owned Products in 2023–2025. Having considered the impact of the outbreak of COVID-19 in 2019/20, we concur with the management of the Group the adoption of the Estimated Growth Rate, which is derived from the latest available statistics following 2019/20, in projecting the Annual Caps to be reasonable.

As discussed in section 3 above, the Group sold the Chinese Medicine Products to the members of the Tong Ren Tang Ltd Group under the Sales Framework Agreement with Tong Ren Tang Ltd for a period from 22 September to 31 December 2022. The management of the Group projected (i) the full year sales in 2023 based on the estimated 4th quarter sales in 2022, which is determined with reference to the sales of the Chinese Medicine Products to the Tong Ren Tang Ltd Group in September 2022; and (ii) the full year sales in 2024–2025 based on the respective estimated sales in the previous year multiplied by the Estimated Growth Rate.

A buffer of 10.3% has been built in for each of 2023–2025 for any possible unexpected increase of the sales amount and any potential appreciation in RMB against HK\$.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Given the Annual Caps have been arrived at based on (i) the historical and estimated sales amount of the Products in 2022, which amounts to HK\$87 million, having applied the Estimated Growth Rate for each of 2023–2025; (ii) the sale of the potential new Owned Products in the PRC starting from 2023, which following the discussion between the management of the Group and Tong Ren Tang Group, could possibly achieve half of the projected sales of the Owned Products in 2023 having applied the Estimated Growth Rate for each of 2024–2025; (iii) the estimated full year sales of the Chinese Medicine Products in 2023, which is determined based on its estimated sales in 4th quarter of 2022 of HK\$38 million, which, in turn, is based on the actual sales to Tong Ren Tang Ltd Group in September 2022, having applied the Estimated Growth Rate for each of 2024–2025; and (iv) a buffer of 10.3% to facilitate smooth operations of the Group, we are of the view that the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

Tong Ren Tang Technologies Group

We have reviewed the calculation of the proposed Annual Caps for the sale of the Products to the Tong Ren Tang Technologies Group for the three years ending 31 December 2025 and we noted that they have been determined based on (i) the historical and estimated sales amounts of the Owned Products for 2022 multiplied by an estimated growth rate; (ii) estimated sales amounts of the Chinese Medicine Products multiplied by an estimated growth rate; and (iii) a buffer for each year. A summary of the actual sales of the Products to the Tong Ren Tang Technologies Group for each of the year ended 31 December 2020 and 2021 and the nine months ended 30 September 2022 as extracted from the letter from the Board is set out below:

| | For the year ended | | For the nine |
|-----------------------|---------------------------|----------------------|----------------------|
| | 31 December | | months ended |
| | 2020 | 2021 | 30 September |
| | <i>HK\$' million</i> | <i>HK\$' million</i> | 2022 |
| | | | <i>HK\$' million</i> |
| Sales of the Products | 8.7 | 0.7 | 1.8 |
| Historical caps | 50.0 | 57.0 | 65.0 ⁽¹⁾ |

Notes:

1. It refers to the annual cap for the full year of 2022.
2. The Group only sold the Owned Products to the Tong Ren Tang Technologies Group during the above periods.

The low utilisation of the historical annual caps was because the Group had adjusted its sales strategy since 2020 with a focus on sales of the Products through the e-commerce sales channel and therefore the Group had prioritised its sales effort and made the Products available to such sales channel as it was at its early stage of operation.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have reviewed and discussed with the management of the Group the sales projection of the Owned Products in 2022–2025. It is noted that (i) the estimated sales in 2022 is actually based on (a) the actual sales of the Owned Products recorded in the first nine months in 2022; and (b) the purchase order of the same for the last quarter of 2022; and (ii) the estimated sales of the Owned Products in 2023 which is based on the aforementioned (i) multiplied by the Estimated Growth Rate; plus the projected sales of the potential new Owned Products, which is expected to account for about one-fourth of the projected sales of the Owned Products (without the potential new Owned Products) in 2023 following the discussion between the management of the Group and the Tong Ren Tang Technologies Group. The full year sales in 2024–2025 is projected based on the respective estimated sales in the previous year multiplied by the Estimated Growth Rate.

In addition, the Tong Ren Tang Technologies Group has expressed its interests in procuring the Chinese Medicine Products from the Group but no order has been placed with the Group so far. The management of the Group has referenced to the estimated sales of the Chinese Medicine Products to the Tong Ren Tang Group for 2023–2025 and adopted the ratio of the estimated sales of the Owned Products between the Tong Ren Tang Group and the Tong Ren Tang Technologies Group in 2022 to project the sales of the Chinese Medicine Products to the Tong Ren Tang Technologies Group in 2023–2025.

A buffer of 10.5% has been built in for each of 2023–2025 for any possible unexpected increase of the sales amount and any potential appreciation in RMB against HK\$.

Given the Annual Caps have been arrived at based on (i) the historical sales amount and the purchase order of the Owned Products in the last quarter of 2022, which amounts to HK\$20 million, having applied the Estimated Growth Rate for each of 2023–2025; (ii) the estimated demand for the potential new Owned Products starting from 2023, which following the discussion between the Group and the Tong Ren Tang Technologies Group, could possibly achieve one-fourth of the projected sales of the Owned Products in 2023, having applied the Estimated Growth Rate for each of 2024–2025; (iii) the estimated demand of the Tong Ren Tang Technologies Group for Chinese Medicine Products, which is with reference to the estimated sales of the Chinese Medicine Products to the Tong Ren Tang Group in 2023–2025 and the ratio of the estimated sales of the Owned Products between the Tong Ren Tang Group and the Tong Ren Tang Technologies Group in 2022 (i.e. 1:4); and (iv) a buffer of 10.5% to facilitate smooth operations of the Group, we are of the view that the Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OPINION AND RECOMMENDATION

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

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

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

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(i) Directors and Chief Executive of the Company

As at 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

| | Types of interests | Capacity | Number of shares | Approximate percentage of issued share capital |
|----------------|---------------------------|------------------|-------------------------|---|
| Ding Yong Ling | Personal | Beneficial owner | 430,000 | 0.051% |
| Lin Man | Personal | Beneficial owner | 310,000 | 0.037% |
| Chen Fei | Personal | Beneficial owner | 43,000 | 0.005% |

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. ⁽¹⁾ | Beneficial owner | 281,460,000 | 33.62% |
| | Interest of a controlled corporation | 318,540,000 | 38.05% |
| Tong Ren Tang Holdings ⁽²⁾ | 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 1.40% domestic shares and H shares in total 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 2021, 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 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:

- (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 2021, 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

The following is the qualification of the Somerley who have given opinion or advice which is 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 under the SFO |

As at the Latest Practicable Date, Somerley:

- (1) had no direct or indirect shareholdings in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group; and
- (2) had no interests, direct or indirect, in any assets which had been, since 31 December 2021 being the date to which the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any of member of the Group, or are proposed to be acquired or disposed of by or leased to any of member of the Group

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter, report or opinion and reference to its name in the form and context in which they respectively appear.

9. DOCUMENTS ON DISPLAY

The following documents will be posted on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (cm.tongrentang.com) for at least 14 days from the date of this circular.

- (1) the Renewed TRT Group PRC Distribution Framework Agreement; and
- (2) the Renewed TRT Tech PRC Distribution Framework Agreement.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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 Tuesday, 14 March 2023 at Meeting Room S226-227 (Harbour Road Entrance), Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions:

AS ORDINARY RESOLUTIONS

1. **“THAT**, the renewed distribution framework agreement entered into between the Company and China Beijing Tong Ren Tang Group Co., Ltd. dated 20 February 2023 (the “**Renewed TRT Group PRC Distribution Framework Agreement**”), and the proposed annual caps for the three years ending 31 December 2025 for the transactions contemplated thereunder are hereby approved, ratified and confirmed; and **THAT** any one director of the Company be and is hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he/she may consider necessary or desirable for the purpose of giving effect to the Renewed TRT Group PRC Distribution Framework Agreement and completing the transactions contemplated thereunder with such changes as he/she may consider necessary, desirable or expedient.”
2. **“THAT**, the renewed distribution framework agreement entered into between the Company and Tong Ren Tang Technologies Co. Ltd. dated 20 February 2023 (the “**Renewed TRT Tech PRC Distribution Framework Agreement**”), and the proposed annual caps for the three years ending 31 December 2025 for the transactions contemplated thereunder are hereby approved, ratified and confirmed;

NOTICE OF EXTRAORDINARY GENERAL MEETING

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 Renewed TRT Tech PRC Distribution Framework Agreement and completing the transactions contemplated thereunder with such changes as he/she may consider necessary, desirable or expedient.”

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

Hong Kong, 23 February 2023

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 notarially certified copy of such power or authority), must be delivered to the Company's share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof.
- (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 Thursday, 9 March 2023 to Tuesday, 14 March 2023 (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 Wednesday, 8 March 2023.

As at the date of this notice, 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