
CONNECTED TRANSACTIONS

Upon the Listing, we will carry out the following transactions which will constitute continuing connected transactions of the Company under the GEM Listing Rules.

1. EXEMPT CONTINUING CONNECTED TRANSACTIONS

Following the Listing, the following transactions will be regarded as continuing connected transactions of the Company which will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 20.33 of the GEM Listing Rules.

(i) Lease of premises from our joint venture partners

We have entered into the following lease agreements with our joint venture partners (collectively the "JV Lease Agreements"):

- (a) lease agreement dated December 2012 between BMI Trading as landlord and TRT (Macau) as tenant whereby BMI Trading agreed to lease properties of a total saleable area of approximately 263 sq.m. located at Rua do Padre Antonio, No. 16-17, Ko Va Kok 10 Andar A e B 11 Andar A e B, and a car parking space, in Macao to TRT (Macau) as staff quarters at a total rental of MOP\$5,400 per month for a term commencing on 1 January 2013 and ending on 31 December 2013;
- (b) two lease agreements both dated 1 January 2013 between Science Arts as landlord and TRT (Singapore) as tenant whereby Science Arts agreed to lease to TRT (Singapore) two properties, namely (1) a room of a GFA of approximately 25 sq.m. located at No. 26 Siang Kuang Avenue, Singapore 347945 for residential purpose at a rental of S\$400 per month for a term commencing on 1 January 2013 and ending on 31 December 2013; and (2) a property of a GFA of approximately 100 sq.m. located at 150 Macpherson Road, #05-01 Science Arts Building, Singapore 348524 for warehouse purpose at a rental of S\$3,500 per month for a term commencing on 1 January 2013 and ending on 1 January 2014, respectively;
- (c) lease agreement dated 1 January 2013 between Kim Ji Hoon, a director of TRT (Boryung), as landlord and TRT (Boryung) as tenant whereby Kim Ji Hoon agreed to lease to TRT (Boryung) a shop of a GFA of approximately 40 sq.m. located at #2-1 Jongno 4-ga, Jongno-gu, Seoul, Korea for business purpose at a rental of KRW300,000 per month for a term commencing on 1 January 2013 and ending on 31 December 2013; and
- (d) tenancy agreement dated 20 April 2011 between Hai-O as landlord and TRT (Malaysia) as tenant whereby Hai-O agreed to lease properties of a total floor area of approximately 1,049 sq.m. located at Ground Floor, Apartment No.1111 on 11th Floor and Apartment No.1602 on 16th Floor, Sun Complex, Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia to TRT (Malaysia) for retail operation at a total rental of MYR11,500 per month for a term commencing on 1 January 2011 and ending on 31 December 2013.

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Connected persons

TRT (Macau) is owned as to 51% by the Company and as to 44% by BMI Trading. BMI Trading is a substantial shareholder of TRT (Macau) and therefore a connected person of the Company at subsidiary level for purpose of the GEM Listing Rules.

TRT (Singapore) is owned as to 51% by the Company and 49% by Science Arts. Science Arts is a substantial shareholder of TRT (Singapore) and therefore a connected person of the Company at subsidiary level for purpose of the GEM Listing Rules.

TRT (Boryung) is owned as to 51% by the Company. Kim Ji Hoon is a director of TRT (Boryung) and hence a connected person of the Company at subsidiary level for the purpose of the GEM Listing Rules.

TRT (Malaysia) is owned as to 60% by the Company and 40% by Hai-O. Hai-O is a substantial shareholder of TRT (Malaysia) and therefore a connected person of the Company at subsidiary level for purpose of the GEM Listing Rules.

The transactions under each of the JV Lease Agreements will therefore constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules upon completion of the Listing.

Historical transaction value

For the years ended 31 December 2011 and 2012, we had paid the following amounts in respect of the lease arrangements with BMI Trading, Science Arts, Kim Ji Hoon and Hai-O:

	For the financial year ended 31 December	
	2011	2012
	<i>(HK\$'000)</i>	
Rentals paid to BMI Trading	102	73
Rentals paid to Science Arts	296	305
Rentals paid to Kim Ji Hoon	8	24
Rentals paid to Hai-O	426	402

The Company's valuer, LCH (Asia-Pacific) Surveyors Limited, has confirmed that based on the above and subject to the general and inherent characteristics of the properties, they consider the rentals payable under the JV Lease Agreements to be either close to the market average or lower than the market average in favour of the Group.

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Implications under the GEM Listing Rules

As mentioned above, the transactions under each of the JV Lease Agreements will constitute continuing connected transactions of the Company under the GEM Listing Rules upon completion of the Listing. As the transactions under each of the JV Lease Agreements is regarded as continuing connected transactions only because (i) each of BMI Trading, Science Arts, Kim Ji Hoon and Hai-O is regarded as a connected person of the Company by virtue of his/its relationship with some of our subsidiaries, namely TRT (Malaysia), TRT (Singapore), TRT (Boryung) and TRT (Macau); and (ii) each of the applicable percentage ratios in respect of the rentals under each of the JV Lease Agreements will be less than 1% on an annual basis, the transactions contemplated under each of the JV Lease Agreements will constitute de minimis continuing connected transactions under Rule 20.33(3)(b) of the GEM Listing Rules and will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

(ii) Procurement of products from Maxbal (Australia) Pty Ltd. (“Maxbal”), Science Arts, Chuan Chiong and Hai-O

We purchased Chinese Medicine Products from Maxbal, Science Arts, Chuan Chiong and Hai-O and its subsidiaries (“Hai-O Group”). We purchased Maxbal branded products from Maxbal in Australia. We purchased “Tong Ren Tang” branded products from Science Arts, Chuan Chiong and Hai-O in Singapore, Hong Kong and Malaysia, respectively as they are the relevant licence holders in these jurisdictions. The price payable to Maxbal, Science Arts, Chuan Chiong and Hai-O are determined by reference to the prevailing market price of similar products sold to Independent Third Parties.

Connected persons

Maxbal is a company controlled by Ma An Yang, a director of TRT (Australia), and therefore a connected person of the Company at subsidiary level for purpose of the GEM Listing Rules. As mentioned, each of Science Arts, Chuan Chiong and Hai-O is also a connected person of the Company at subsidiary level for purpose of the GEM Listing Rules.

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Historical transaction value

For the years ended 31 December 2011 and 2012, the transaction amounts paid by us in respect of our purchase from Maxbal, Science Arts, Chuan Chiong and Hai-O Group are set out below:

	For the financial year ended 31 December	
	2011	2012
	<i>(HK\$'000)</i>	
Purchases from Maxbal	558	777
Purchases from Science Arts	2,859	2,468
Purchases from Chuan Chiong	3,136	6,878
Purchases from Hai-O Group	2,521	3,257

Implications under the GEM Listing Rules

The purchases from Maxbal and Science Arts will be regarded as de minimis continuing connected transactions under Rule 20.33(3)(b) of the GEM Listing Rules and will be exempt from reporting, annual review, announcement and independent shareholders' requirements under the GEM Listing Rules because (i) each of Maxbal and Science Arts is regarded as a connected person of the Company only by virtue of its relationship with our subsidiary, TRT (Australia) and TRT (Singapore), respectively; and (ii) each of the applicable percentage ratios is less than 1% on an annual basis.

The transactions involving Chuan Chiong and Hai-O will be regarded as exempt continuing connected transactions exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for purpose of Rule 20.31(9) (b) (ii) of the GEM Listing Rules because (i) they constitute continuing connected transactions only because each of Chuan Chiong and Hai-O is regarded as our connected person by virtue of its relationship with TRT (Canada) and TRT (Malaysia), respectively; and (ii) each of TRT (Canada) and TRT (Malaysia) is regarded as an insignificant subsidiary as the value of its total assets, profits and revenue represents less than 5% under the relevant percentage ratios as defined under Rule 19.04(9) of the GEM Listing Rules for the latest financial year ended 31 December 2012.

(iii) Sales of products to Science Arts and Chuan Chiong

We sold Chinese Medicine Products to Science Arts and Chuan Chiong. The price payable by Science Arts and Chuan Chiong are determined by reference to the prevailing market price of similar products we sell to Independent Third Parties.

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Connected persons

As mentioned, each of Science Arts and Chuan Chiong is a connected person of the Company at subsidiary level for purpose of the GEM Listing Rules.

Historical transaction value

For the years ended 31 December 2011 and 2012, the transaction amounts received by the Group in respect of our sales to Science Arts and Chuan Chiong are set out below:

	For the financial year ended 31 December	
	2011	2012
	<i>(HK\$'000)</i>	
Sales to Science Arts	351	374
Sales to Chuan Chiong	18,413	49,256

Implications under the GEM Listing Rules

The sales to Science Arts will be regarded as de minimis continuing connected transactions under Rule 20.33(3)(b) of the GEM Listing Rules and will be exempt from reporting, annual review, announcement and independent shareholders' requirements under the GEM Listing Rules because (i) Science Arts is regarded as a connected person of the Company only by virtue of its relationship with our subsidiary, TRT (Singapore); and (ii) each of the applicable percentage ratios is less than 1% on an annual basis.

As mentioned, the transactions involving Chuan Chiong will be regarded as exempt continuing connected transactions exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for purpose of Rule 20.31(9) (b) (ii) of the GEM Listing Rules because (i) they constitute continuing connected transactions only because Chuan Chiong is regarded as our connected person by virtue of its relationship with TRT (Canada); and (ii) TRT (Canada) is regarded as an insignificant subsidiary as the value of its total assets, profits and revenue represents less than 5% under the relevant percentage ratios as defined under Rule 19.04(9) of the GEM Listing Rules for the latest financial year ended 31 December 2012.

(iv) Licence of "Tong Ren Tang" trademarks by TRT Holdings

Pursuant to a trademark licence agreement and authorization letter dated 15 April 2013 (the "Trademark Licence Agreement and Authorization Letter") between TRT Holdings and the Company, TRT Holdings licensed the use of "Tong Ren Tang" trademarks for the Company's production as well as for the right to use the "Tong Ren Tang" trademarks outside of the PRC including but not limited to the right to sub-license the said trademarks subject to the terms of

CONNECTED TRANSACTIONS

the Trademark Licence Agreement and Authorization Letter for a term commencing from 25 October 2012 to 13 May 2021. According to the Trademark Licence Agreement and Authorization Letter, the Company is not subject to any fee or charges for use of the trademark as long as TRT Holdings directly or indirectly controls not less than 51% equity interest in the Company. The trademark license and authorization will be automatically renewed on the same terms and conditions on a perpetual basis for terms of 10 years upon expiry on 13 May 2021.

Implications under the GEM Listing Rules

As mentioned, TRT Holdings is a connected person of the Company. The transactions under the Trademark Licence Agreement and Authorisation Letter will constitute continuing connected transactions of the Company. As no consideration is payable to TRT Holdings in respect of the Trademark License Agreement and Authorisation Letter, the transactions contemplated under the Trademark License Agreement and Authorisation Letter constitute de minimis continuing connected transactions and are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

2. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

(A) Continuing Connected Transactions exempt from the Independent Shareholders' Approval Requirement but subject to the Reporting, Annual Review and Announcement Requirements

The following connected transactions will constitute continuing connected transactions of the Company which will be exempt from the independent shareholders' approval requirement but subject to the reporting, annual review and announcement requirements under Chapter 20 of the GEM Listing Rules after completion of the Listing:

(i) Lease of premises from the Parent Group

We entered into the following lease agreements (the "Lease Agreements") with the Parent Group:

- (a) two lease agreements both dated 1 January 2011 and their respective supplemental agreements both dated 3 April 2013 and a lease agreement dated 31 December 2012, all entered into between TRT International Natural-Pharm as tenant and TRT Holdings as landlord whereby TRT Holdings agreed to lease to TRT International Natural-Pharm (1) a warehouse of a GFA of approximately 700 sq.m. located at Dong Zong Tun, Liyuan Town, Tongzhou District, Beijing, the PRC for storage purpose at a rental of RMB18,000 per year; (2) an office unit of a GFA of approximately 340 sq.m. located at Level 3, Bei Lou, Jia Si Hao, Guan Ying Yuan Xi Qu, Xicheng District, Beijing, the PRC at a rental of RMB10,000 per year; and (3) a storage room of a GFA of approximately 2 sq.m. located at Laoniawan, Shahe, Changping District, Beijing at a rental of RMB 500 per year, respectively, each for a term commencing on 1 January 2013 and ending on 31 December 2015;

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- (b) a lease agreement dated 31 December 2010 and its supplemental agreement dated 31 December 2012 between TRT Consulting Services as tenant and TRT Holdings as landlord whereby TRT Holdings agreed to lease to TRT Consulting Services a property of a GFA of 10 sq.m. located at No. 52 Dong Xing Long Street, Dongcheng District, Beijing, the PRC for office purpose at a rental of RMB3,600 per year for a term commencing on 1 January 2013 and ending on 31 December 2015; and
- (c) a lease agreement dated 1 October 2012 and its supplemental agreement dated 9 April 2013 between the Company as tenant and TRT International as landlord whereby TRT International agreed to lease to the Company a property of a saleable area of 279 sq.m. located at Room 1408-1409, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong for office purpose at a rental of HK\$150,000 per month for a term commencing from 1 October 2012 and ending on 31 December 2015.

Connected persons

TRT Holdings is our Controlling Shareholder and hence a connected person of the Company for purpose of the GEM Listing Rules. TRT International is owned as to 99.5% by TRT Holdings and hence a connected person of the Company for the purpose of the GEM Listing Rules. The transactions under the Lease Agreements between us and each of TRT Holdings and TRT International will therefore constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules upon completion of the Listing.

Historical transaction value

For the years ended 31 December 2011 and 2012, we had paid the following amounts in respect of the leases of the properties under the Lease Agreements with the Parent Group:

	For the financial year ended	
	31 December	
	2011	2012
	<i>(HK\$'000)</i>	
Rental paid to TRT Holdings	38	38
Rental paid to TRT International	<u>300</u>	<u>1,800</u>
Total:	<u><u>338</u></u>	<u><u>1,838</u></u>

CONNECTED TRANSACTIONS

Expected annual rentals

Based on the current rentals payable, we expect to pay the following rentals to the Parent Group for the years ending 31 December 2013, 2014 and 2015 pursuant to the Lease Agreements:

	For the financial year ending 31 December		
	2013	2014	2015
	<i>(HK\$'000)</i>		
Aggregate annual rental payable to TRT Holdings	38	38	38
Aggregate annual rental payable to TRT International	<u>1,800</u>	<u>1,800</u>	<u>1,800</u>
Total:	<u><u>1,838</u></u>	<u><u>1,838</u></u>	<u><u>1,838</u></u>

The Company's valuer, LCH (Asia-Pacific) Surveyors Limited, has confirmed that based on the above and subject to the general and inherent characteristics of the properties, they consider the rentals payable under the Lease Agreements to be either close to the market average or lower than the market average in favour of the Group.

Implications under the GEM Listing Rules

As mentioned above, the transactions under the Lease Agreements will constitute continuing connected transactions of the Company under the GEM Listing Rules upon completion of the Listing. As the applicable percentage ratios in respect of the rentals under the Lease Agreements will be more than 0.1% but less than 5% on an annual basis, the transactions contemplated under the Lease Agreements will be subject to the reporting, annual review and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

(ii) Procurement of Angong Niu Huang Powder from TRT Ltd.

On 30 September 2012, the Company entered into a master purchase agreement with TRT Ltd. (the "Angong Niu Huang Powder Master Purchase Agreement") whereby the Company agreed to purchase and TRT Ltd. agreed to sell Angong Niu Huang Powder, being the raw materials for production of Angong Niu Huang Pills, for a term commencing from 1 January 2013 and ending on 31 December 2015. Pursuant to the Angong Niu Huang Powder Master Purchase Agreement, the price the Company pays to TRT Ltd. is based on the costs of raw materials with a mark-up for the processing fees of TRT Ltd. It is

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envisaged that individual contracts may be required to be entered into between TRT International Natural-Pharm and TRT Ltd. in respect of such purchase transactions from time to time.

Connected persons

TRT Ltd. is our Controlling Shareholder and hence a connected person of the Company for the purpose of the GEM Listing Rules.

Historical transaction value

For the years ended 31 December 2011 and 2012, the amounts paid by the Group in respect of the purchases of Angong Niuhuang Powder from TRT Ltd. amounted to approximately HK\$9.0 million and HK\$14.3 million, respectively.

Annual Caps

The annual caps in respect of the transactions under the Angong Niuhuang Powder Master Purchase Agreement for the years ending 31 December 2013, 2014 and 2015 are HK\$10 million, HK\$12 million and HK\$13 million, respectively, which have been determined by taking into consideration the estimated increase in purchase amounts of Angong Niuhuang Powder due to the general increase in prices of such materials and the increase in production volume of Angong Niuhuang Pills to cater for increasing market demand. As one of the measures to reduce our reliance on the Parent Group, since 1 October 2012, the Group has purchased raw materials for Angong Niuhuang Powder (other than natural musk which the Group does not have the required approval for processing) from Independent Third Parties which are supplied to the Parent Group for processing into Angong Niuhuang Powder. Therefore, the annual caps for the amounts to be paid by the Group in respect of the purchase of Angong Niuhuang Powder from TRT Ltd. under the Angong Niuhuang Powder Master Purchase Agreement comprise only the costs of the natural musk and the relevant processing fees but not the costs of the other raw materials which were then included in the amounts paid by the Group for its purchase of Angong Niuhuang Powder during the Track Record Period.

Implications under the GEM Listing Rules

The transactions under the Angong Niuhuang Powder Master Purchase Agreement will constitute continuing connected transactions for the Company under the GEM Listing Rules upon completion of the Listing. As the applicable percentage ratios in respect of the transaction amounts under the Angong Niuhuang Powder Master Purchase Agreement will be more than 0.1% but less than 5% on an annual basis, the transactions under the Angong Niuhuang Powder Master Purchase Agreement will be subject to the reporting, annual review and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTIONS

(B) Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements

The following connected transactions will constitute continuing connected transactions of the Company which will be subject to the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules after completion of the Listing:

(i) Exclusive Distributorship Framework Agreements with TRT Technologies and TRT Ltd.

On 29 October 2012, the Company entered into an exclusive distributorship framework agreement (the "Exclusive Distributorship Framework Agreements") with each of TRT Technologies and TRT Ltd. whereby TRT International Natural-Pharm, a wholly-owned subsidiary of the Company, was appointed by each of TRT Technologies and TRT Ltd. as the sole distributor of "Tong Ren Tang" branded products of each of TRT Ltd. and TRT Technologies in Non-PRC Markets and we will purchase "Tong Ren Tang" branded products from TRT Technologies and TRT Ltd. for a term commencing from 1 November 2012 and ending on 31 December 2014.

Pursuant to the Exclusive Distributorship Framework Agreements, we will purchase products from TRT Technologies and TRT Ltd. at price which shall not be higher than the price TRT Technologies and TRT Ltd. sell the same products on wholesale basis to the domestic customers in the PRC and shall make reference to the prevailing market price. It is envisaged that individual contracts may be required to be entered into between TRT International Natural-Pharm and each of TRT Technologies and TRT Ltd. in respect of such purchase transactions from time to time. The parties intend to renew the Exclusive Distributorship Framework Agreements upon their expiry subject to all relevant approvals requirements. If the Exclusive Distributorship Framework Agreements are not renewed, which is a normal and common risk with all companies engaged in distribution which have distributorship agreements, the Group's retail and wholesale operations will purchase the required products from the relevant licence holders. If the Parent Group is still the Controlling Shareholder of the Company, it cannot sell its products to Non-PRC Markets under the Deed of Non-competition and none of the Parent Group's products will be sold in Non-PRC Markets if the Exclusive Distributorship Framework Agreements are terminated. Accordingly, it does not make commercial sense for the Parent Group to terminate these agreements while still controlling the Company.

Connected persons

Each of TRT Technologies and TRT Ltd. is our Controlling Shareholder and hence a connected person of the Company for the purpose of the GEM Listing Rules.

CONNECTED TRANSACTIONS

Historical transaction value

For the years ended 31 December 2011 and 2012, the amounts paid by the Group in respect of the Group's purchases of merchandise for its distribution in Non-PRC Markets amounted to approximately HK\$30.9 million and HK\$29.6 million, respectively.

Annual Caps

The annual caps in respect of the transactions under the Exclusive Distributorship Framework Agreements for the years ending 31 December 2013 and 2014 are HK\$60 million and HK\$69 million, respectively, which have been determined by taking into consideration (i) the significant decrease in the purchase of the Parent Group's Angong Niu Huang Pills; (ii) the expected increase in purchase of "Tong Ren Tang" branded products from the Parent Group following the replacement of the agency arrangements by the sole distributorship arrangements between us and each of TRT Technologies and TRT Ltd.; and (iii) the estimated increase in the sales volume of "Tong Ren Tang" branded products overseas due to the increase in market demand and the expansion in overseas distribution network and retail stores.

Implications under the GEM Listing Rules

The transactions under the Exclusive Distributorship Framework Agreements will constitute continuing connected transactions for the Company under the GEM Listing Rules upon completion of the Listing. As the applicable percentage ratios in respect of the transaction amounts under the Exclusive Distributorship Framework Agreements will be more than 5% on an annual basis, the transactions under the Exclusive Distributorship Framework Agreements will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

APPLICATION FOR WAIVERS

Upon completion of the Listing, the continuing connected transactions described in the section above headed "Non-exempt Continuing Connected Transactions" (the "Non-Exempt Transactions") will constitute non-exempt continuing connected transactions of the Company under the GEM Listing Rules, and will be required to comply with the reporting, announcement and/or independent shareholders' approval requirements.

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Our Directors (including independent non-executive Directors) are of the view that the Non-Exempt Transactions have been and will be entered into on normal commercial terms and in the ordinary and usual course of business of the Company that are fair and reasonable and in the interests of the Company and Shareholders as a whole, and the transactions and proposed annual caps set out above are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We have applied for a waiver from strict compliance with the above announcement and/or independent shareholders' approval requirements in respect of the Non-Exempt Transactions and the Stock Exchange has granted a waiver in relation thereto. Except for the waiver granted to exempt from compliance with announcement and/or independent shareholders' approval requirements, the Company will comply with the relevant requirements under Chapter 20 of the GEM Listing Rules.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor is of the view that (i) the Non-Exempt Transactions for which the waiver are sought have been and shall be entered into on normal commercial terms, and are fair and reasonable, in the interests of the Company and the Shareholders as a whole, and in the ordinary and usual course of business of the Company; and (ii) the terms and conditions of the agreements and the proposed annual cap amounts of the Non-Exempt Transactions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.