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**BEIJING TONG REN TANG CHINESE MEDICINE COMPANY LIMITED**

北京同仁堂國藥有限公司

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 8138)**

**CONTINUING CONNECTED TRANSACTIONS  
REGARDING RENEWAL OF  
THE PRC DISTRIBUTION FRAMEWORK AGREEMENT**

**RENEWAL OF THE PRC DISTRIBUTION FRAMEWORK AGREEMENT**

Reference is made to the announcements of the Company dated 3 October 2013 and 10 April 2014 in relation to, inter alia, the continuing connected transactions contemplated under the Existing PRC Distribution Framework Agreement and its revision of annual caps and terms.

As the Existing PRC Distribution Framework Agreement will soon expire on 31 December 2016, the Company entered into the new PRC Distribution Framework Agreement with Tong Ren Tang Holdings on 14 December 2016 for a further term of three years to renew the PRC distribution arrangement. Pursuant to which, Tong Ren Tang Group, as a non-exclusive distributor of the Company, may purchase the Owned Products from the Group and then distribute the same to, among others, retailers or end users in the PRC. The Company also resolved to obtain the new annual caps for the transactions contemplated under the PRC Distribution Framework Agreement for the three years ending 31 December 2019 in order to comply with the GEM Listing Rules.

**GEM LISTING RULES IMPLICATIONS**

Tong Ren Tang Holdings is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company under the GEM Listing Rules. Accordingly, the transactions contemplated under the PRC Distribution Framework Agreement constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) of the proposed new annual caps of the transactions contemplated under the PRC Distribution Framework Agreement exceed 5% and the annual cap is more than HK\$10,000,000, the transactions contemplated under the PRC Distribution Framework Agreement are subject to reporting, announcement, annual review, as well as the independent shareholders' approval requirements under the GEM Listing Rules.

A circular containing, among others, details of the PRC Distribution Framework Agreement, a letter from the independent board committee and a letter from the independent financial adviser on the terms of the PRC Distribution Framework Agreement, together with a notice convening the EGM, will be despatched to the Shareholders on or before 19 December 2016.

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### **PRC Distribution Framework Agreement**

#### **Date**

14 December 2016

#### **Parties**

- (i) the Company
- (ii) Tong Ren Tang Holdings, the ultimate controlling shareholder of the Company

#### **Continuing Transactions**

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

#### **Terms and Termination**

The PRC Distribution Framework Agreement shall be for a period from 1 January 2017 to 31 December 2019, and will be effective upon the approval of the Independent Shareholders at the EGM.

#### **Consideration**

Price for the Owned Products shall be determined based on:

- (i) a reasonable cost plus a fair and reasonable profit margin: (a) the reasonable cost shall be determined by reference to the cost of the raw materials, the cost of labour and the manufacturing expense, etc.; and (b) the profit margin shall be determined by reference to the average gross profit rate of the Group in the previous years, which shall not be less than 50%; and

(ii) the prevailing market price, which is with reference to the price and sale terms of similar products in the industry and in the PRC market at the time when the separate implementation agreement is entered into.

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

The consideration for the Owned Products sold by the Group under the PRC Distribution Framework Agreement shall be settled by the Tong Ren Tang Group within three months from the date when the specific order is placed.

### **Annual Caps**

The Company proposes that the annual caps for the transactions contemplated under the PRC Distribution Framework Agreement shall be HK\$200,000,000 (exclusive of value-added tax in the PRC), HK\$230,000,000 (exclusive of value-added tax in the PRC) and HK\$270,000,000 (exclusive of value-added tax in the PRC) for the three years ending 31 December 2019, respectively, which is determined with reference to:

(i) the actual transaction amount (exclusive of value-added tax in the PRC) of approximately HK\$126,100,000 and HK\$124,946,000 for the two years ended 31 December 2015, respectively, which has been accounted for in the audited financial statements for the two years ended 31 December 2015;

(ii) the annual caps for the transactions contemplated under the Existing PRC Distribution Framework Agreement are HK\$185,000,000 (exclusive of value-added tax in the PRC), HK\$220,000,000 (exclusive of value-added tax in the PRC) and HK\$260,000,000 (exclusive of value-added tax in the PRC) for the three years ending 31 December 2016, respectively;

(iii) the unaudited actual transaction amount (exclusive of value-added tax in the PRC) of approximately HK\$69,160,000 for the six months ended 30 June 2016 and the projected annualised sales amount for the year 2016 is approximately HK\$147,000,000, which means an increase of approximately 17.7% as compared to the actual transaction amount for the year 2015. The proposed annual cap for the year ending 31 December 2017 was arrived taking into account (a) the expected increase of the transaction amount for the year 2017 with reference to the similar growth rate of 17.7% as mentioned above; and (b) the possible buffer ranging from 14.3% to 16.3% for any unexpected increase of the sales amount with reference to the similar buffer under the Existing PRC Distribution Framework Agreement and the current market condition, as well as for any potential appreciation in the RMB against HK\$. In addition, the increase of proposed annual caps for the two years ending 31 December 2018 and 2019 represent a year-on-year growth rate of around 15% - 17% which is similar to the growth rate of the sales amount as mentioned above. The abovementioned buffer projection is assumed solely for determining the annual cap 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; and

(iv) the expected improving market conditions and the continuous increase in demand for the Owned Products in the PRC as demonstrated by the increase in the actual sales made to the Tong Ren Tang Group for the two years ended 31 December 2015 and the six months ended 30 June 2016.

### **Implementation Agreements**

Members of the Group and 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 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 PRC Distribution Framework Agreement and the relevant annual caps, and if exceeded, the Company will comply with the relevant GEM Listing Rules accordingly.

## **INTERNAL CONTROL AND RISK MANAGEMENT MEASURES**

In order to ensure that the aforesaid pricing basis for the PRC Distribution Framework Agreement is adhered to, the Company will continue to adopt the following internal control and risk management measures:

- the responsible person of the relevant business department of the Company shall monitor the performance of the implementation agreements and prices for the Owned Products sold to the members of the Tong Ren Tang Group on a monthly basis (or more frequently if it is determined necessary) to ensure that the prices of the Owned Products is carried out in strict accordance with the pricing policies as set out in the PRC Distribution Framework Agreement. If any revision of terms or any price adjustment is required or if any imminent or possible exceeding of the annual caps is discovered due to change of actual circumstances, the business department is required to communicate to the finance department of the Company which will consider to initiate the appropriate approval process. Business department shall also regularly report the actual transaction amount to the finance department of the Company;
- the finance department of the Company is responsible for monitoring, collecting, and evaluating the specific information in relation to the implementation agreements under the PRC Distribution Framework Agreement (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 Owned Products charged by the Group are in compliance with the pricing policies and do not exceed the proposed annual caps. In particular, based on the actual transaction amount regularly reported by the business department, the finance department collects and totals the transaction amount of the continuing connected transactions. The finance department maintains a database, which is updated monthly (or more frequently if it is determined necessary), to store all the information for the Owned Products sold to the members of the Tong Ren Tang Group. Such database allows business department of the Company to keep up-to-date records of the selling price and transaction records for the Owned Products sold to the members of the Tong Ren Tang Group. The finance department will check the information monthly (or more frequently if it is determined necessary) to ensure reasonableness of the continuing connected transactions; and
- the independent non-executive Directors and the auditor of the Company will on a regular basis be provided with (i) the PRC Distribution Framework Agreement; (ii) the agreements entered into between the Group and independent third parties for the distribution of the same type of the Owned Products; and (iii) individual implementation agreements entered into between the Group and the Tong Ren Tang Group as well as those between the Group and independent third parties in respect of distribution of the Owned Products in the PRC. The independent non-executive Directors will also review and compare the relevant payment terms, payment method and price payable under these agreements and to ensure that the transactions contemplated under the PRC Distribution Framework Agreement are conducted on normal commercial terms or better, and are fair and reasonable. The auditor of the Company will review and confirm the transactions contemplated under the PRC Distribution Framework Agreement are conducted in accordance with the terms of the PRC Distribution Framework Agreement on an annual basis.

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

## **REASONS FOR RENEWAL OF THE PRC DISTRIBUTION FRAMEWORK AGREEMENT**

The Directors believe that the Owned Products' continuous availability for sale to the members of the Tong Ren Tang Group would be in the interests of the Company and its Shareholders as well as the consumers as a whole. Other than the PRC Distribution Framework Agreement, 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 PRC Distribution Framework Agreement.

The sale of the Owned Products to the members of the Tong Ren Tang Group would be beneficial to the development of the Group's business, 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 Owned Products through the network of the Tong Ren Tang Group will also add an additional protection to consumers to ensure that no fake products will be purchased by the consumers in the distribution network operated by the Tong Ren Tang Group in the PRC.

The Directors (excluding the independent non-executive Directors who will express their views after receiving advice from the independent financial adviser) are of the view that the terms of the 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 Holdings and its ultimate beneficial owner(s) or otherwise related, which would be, together with the transactions contemplated under the PRC Distribution Framework Agreement, aggregated under the GEM Listing Rules.

## **GEM LISTING RULES IMPLICATIONS**

As at the date of this announcement, Tong Ren Tang Holdings, who directly and indirectly, holds 600,000,000 shares of the Company (representing approximately 71.67% of the issued share capital of the Company) is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company under the GEM Listing Rules. Accordingly, the transactions contemplated under the PRC Distribution Framework Agreement constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) of the proposed new annual caps of the transactions contemplated under the PRC Distribution Framework Agreement exceed 5% and the annual cap is more than HK\$10,000,000, the transactions contemplated under the PRC Distribution Framework Agreement are subject to

reporting, announcement, annual review as well as the independent shareholders' approval requirements under the GEM Listing Rules.

Mr. Mei Qun (who is the chairman of Tong Ren Tang Holdings) and Ms. Ding Yong Ling (who is the director and the deputy general manager of Tong Ren Tang Holdings), are considered to have material interests in the PRC Distribution Framework Agreement by virtue of their positions in Tong Ren Tang Holdings and have abstained from voting on the relevant resolutions in the Board meeting to approve such agreement. Save as disclosed, there is no other Director who has a material interest in the transactions contemplated under the PRC Distribution Framework Agreement.

A circular containing, among others, details of the PRC Distribution Framework Agreement, a letter from the independent board committee and a letter from the independent financial adviser on the terms of the PRC Distribution Framework Agreement, together with a notice convening the EGM, will be despatched to the Shareholders on or before 19 December 2016.

## **GENERAL INFORMATION**

### **The Company**

The Company is 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. Tong Ren Tang Group is engaged in the processing, manufacture and sale of Chinese medicinal materials, Chinese patent medicine, Chinese medicinal decoction pieces, medical food, warehousing and transportation, etc.

## **DEFINITIONS**

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

“associate”	has the meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors of the Company
“Company”	Beijing Tong Ren Tang Chinese Medicine Company Limited, a company incorporated in Hong Kong with limited liability and the issued shares of which are listed on GEM
“connected persons”	has the meaning ascribed thereto under the GEM Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the GEM 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 PRC Distribution Framework Agreement and the new annual caps contemplated thereunder

“Existing PRC Distribution Framework Agreement”	an existing framework agreement dated 3 October 2013 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 Company, would purchase the Owned Products from the Company and then distribute the same to, among others, retailers or end-users in the PRC as supplemented by a supplemental agreement dated 10 April 2014
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	The Rules Governing the Listing of Securities on GEM (as amended from time to time)
“GLSPC”	ganoderma lucidum spores powder capsule manufactured by the Group
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Shareholders”	Shareholders other than Tong Ren Tang Holdings and its associates
“Main Board”	the stock market operated by the Stock Exchange, which exclude, the option market and which continues to be operated by the Stock Exchange in parallel with GEM and which, for avoidance of doubt, excludes GEM
“Owned Products”	Chinese medicine and/or healthcare products to be researched, developed and manufactured by the Group from time to time, including the Chinese medicine and/or healthcare products containing ganoderma lucidum or ganoderma lucidum spore as raw materials to be researched, developed and manufactured by the Group (including GLSPC), but for the avoidance of doubt, excluding Angong Niu Huang Pills
“PRC”	the People’s Republic of China and, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Distribution Framework Agreement”	a framework agreement dated 14 December 2016 entered into between the Company and Tong Ren Tang Holdings, pursuant to which the Tong Ren Tang Group, as a non-exclusive distributor of the Company, would purchase the Owned Products from the Company and then distribute the same to, among others, retailers or end-users in the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tong Ren Tang Group”	Tong Ren Tang Holdings, its subsidiaries (either directly owned or indirectly owned), its jointly-controlled entities and its associates (other than Tong Ren Tang Technologies and its subsidiaries)
“Tong Ren Tang Holdings”	China Beijing Tong Ren Tang (Holdings) Corporation, a state-owned enterprise established in the PRC on 17 August 1992 and is the ultimate controlling shareholder of the Company
“Tong Ren Tang Technologies”	Tong Ren Tang Technologies Co., Ltd., a joint stock limited company established in the PRC on 22 March 2000, the H shares of which have been listed on GEM since 2000 and have been transferred to the Main Board since July 2010, and is the immediate holding company of the Company

By order of the Board  
**Beijing Tong Ren Tang**  
**Chinese Medicine Company Limited**  
**Mei Qun**  
*Chairman*

Hong Kong, 14 December 2016

*As at the date of this announcement, the Board comprises non-executive director, namely Mei Qun; the executive directors, namely Ding Yong Ling, Zhang Huan Ping and Lin Man; and the independent non-executive directors, namely Leung, Oi Sie Elsie, Chan Ngai Chi and Zhao Zhong Zhen.*

*This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the GEM 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: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; and (2) there are no other matters the omission of which would make any statement herein or this announcement misleading.*

*This announcement will remain on the ‘‘Latest Company Announcement’’ page of the GEM website ([www.hkgem.com](http://www.hkgem.com)) for at least seven days from the date of its posting and on the Company’s website at ([www.tongrentangcm.com](http://www.tongrentangcm.com)).*