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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  
MASTER LEASE FRAMEWORK AGREEMENT**

The Board announces that on 25 January 2017, the Company and Tong Ren Tang Holdings entered into the Master Lease Framework Agreement, pursuant to which, Tong Ren Tang Holdings has agreed to lease and procure other members of the Tong Ren Tang Group to lease certain premises to the Group for its productions and operations so that any member of the Group may continue, amend or renew the Existing Leases with any member of the Tong Ren Tang Group from time to time during the period commenced from 1 January 2017 and ending on 31 December 2019 subject to the annual caps.

**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 Master Lease 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 and equity capital ratio) of the proposed annual caps under the Master Lease Framework Agreement for the three years ending 31 December 2019, exceed 0.1% but less than 5%, the transactions contemplated under the Master Lease Framework Agreement are subject to reporting, announcement and annual review requirements but exempt from the independent Shareholders' approval requirements under the GEM Listing Rules.

**INTRODUCTION**

The Board announces that on 25 January 2017, the Company and Tong Ren Tang Holdings entered into the Master Lease Framework Agreement, pursuant to which, Tong Ren Tang Holdings has agreed to lease and procure other members of the Tong Ren Tang Group to lease certain premises to the Group for its productions and operations so that any member of the Group may continue, amend or renew the Existing Leases with any member of the Tong Ren Tang Group from time to time and as necessary for the future business needs of the Group.

## MASTER LEASE FRAMEWORK AGREEMENT

- Date: 25 January 2017 (after trading hours)
- Parties: (1) the Company  
(2) Tong Ren Tang Holdings
- Term: The Master Lease Framework Agreement is for a term of three years commenced from 1 January 2017 and ending on 31 December 2019. Upon expiry, the Master Lease Framework Agreement will, subject to, compliance with the relevant requirements under the GEM Listing Rules and agreement of the parties, be renewed for a further term of three years.
- Subject: The Master Lease Framework Agreement sets out a framework of the terms on which Tong Ren Tang Holdings has agreed to lease and procure other members of the Tong Ren Tang Group to lease certain premises to any members of the Group for the Group's productions and operations, including but not limited to office premises, warehouses and staff quarter.
- Rental determination:
- The terms of all Leases shall be negotiated on an arm's length basis and shall be fair and reasonable.
  - The relevant market price is determined by reference to the rental information gathered by the Group of certain premises of similar specification and size in similar locations based on such market terms to make sure that the terms offered by the Tong Ren Tang Group would not be less favorable than those offered by third parties on the market; or
  - where the market price is not available, the contracted price, which shall be determined after arm's length negotiation based by both parties of the agreement based on the principle of cost plus a fair and reasonable profit rate and by reference to the historical rentals. The reasonable cost shall be determined by reference to the size of the premises provided by the Tong Ren Tang Group, and the cost of premises management.
- Payment:
- The rentals under the Master Lease Framework Agreement are payable by cash according to the specific and separate implementation agreements and funded by the Group's internal resources. The Directors are of view that such payment terms are in line with the market practice.

### Historical transaction figures:

For the three years ended 31 December 2014, 2015 and 2016, the Group had the following amounts paid/payable to the Tong Ren Tang Group in respect of the leases of premises with the Tong Ren Tang Group:

	For the year ended 31 December		
	2014 (HK\$'000)	2015 (HK\$'000)	2016 (HK\$'000)
Total rental paid/payable by the Group to the Tong Ren Tang Group	1,800	1,800	2,314

There were certain occasions where upon the entering into certain of the expired leases and the Existing Leases conducted on normal commercial terms before signing of the Master Lease Framework Agreement, the applicable percentage ratios with reference to the total rental payable to the Tong Ren Tang Group on an annual basis in respect of certain premises were, at the relevant times, less than 0.1% and the total rental were less than HK\$3,000,000, and accordingly, the relevant transactions under the said expired leases and/or Existing Leases were fully exempt under the GEM Listing Rules.

Since the renewal of certain Existing Leases with new annual rentals and additions of certain leases of premises from 1 January 2017, in order to compliance with the GEM Listing Rules, the Company has decided to enter into the Master Lease Framework Agreement to facilitate the lease transactions between the Group and the Tong Ren Tang Group.

### Proposed annual caps:

The Directors have proposed the following annual caps for the transactions contemplated under the Master Lease Framework Agreement for the three years ending 31 December 2017, 2018 and 2019:

	For the year ending 31 December		
	2017 (HK\$'000)	2018 (HK\$'000)	2019 (HK\$'000)
Annual caps	6,200	6,900	7,000

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

- the annual rental payable to the Tong Ren Tang Group under the Existing Leases and the renewal of the Existing Leases;
- the stable growth of the market rental of the premises leased under the Master Lease Framework Agreement during the three years ending 31 December 2019;
- expected new leases of the premises in Australia and the PRC for the retail and office use during the three years ending 31 December 2019;
- the potential appreciation in the RMB and other foreign currencies against HK\$; and
- a buffer of around 16% has been provided to the proposed annual caps for the possible demand of the Group for the new leases of premises for its business expansion.

### **Implementation agreements:**

Members of the Group and members of the Tong Ren Tang Group will enter into, from time to time and as necessary, separate implementation agreements to set out the specific terms and conditions in respect of the relevant premises leased thereunder. All the terms of the Existing Leases which has been complied with the terms under the Master Lease Framework Agreement shall remain in full force and effect.

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

### **INTERNAL CONTROL MEASURES**

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

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

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 Master Lease Framework Agreement. The Directors (including the independent non-executive Directors) are of the view that the above methods and procedures can ensure that the transactions contemplated under the Master Lease Framework Agreement will be conducted on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

## **REASONS FOR ENTERING INTO THE MASTER LEASE FRAMEWORK AGREEMENT**

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

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

## **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 Master Lease 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 and equity capital ratio) of the proposed annual caps under the Master Lease Framework Agreement for the three years ending 31 December 2019, exceed 0.1% but less than 5%, the transactions contemplated under the Master Lease Framework Agreement are subject to reporting, announcement and annual review requirements but exempt from 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 transactions contemplated under the Master Lease 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 the transactions contemplated under the Master Lease Framework Agreement. Save as disclosed, there is no other Director who has a material interest in the transactions contemplated under the Master Lease Framework Agreement.

## GENERAL INFORMATION

### The Company

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

### Tong Ren Tang Holdings

Tong Ren Tang Holdings is an investment holding company. The Tong Ren Tang Group is engaged in the processing, 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:

“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 on 18 March 2004 and the issued shares of which have been listed on GEM since May 2013
“connected persons”	has the meaning ascribed thereto under the GEM Listing Rules
“Directors”	the directors of the Company
“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)
“Existing Leases”	the lease(s) entered into between the members of Tong Ren Tang Group and the members of the Group
“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
“Leases”	the Existing Leases, and such other new leases which may be entered into by members of the Group with Tong Ren Tang Holdings under the Master Lease Framework Agreement from time to time

“Master Lease Framework Agreement”	the master lease framework agreement dated 25 January 2017 entered into between the Company and Tong Ren Tang Holdings in respect of the leasing of certain premises by Tong Ren Tang Holdings or other members of the Tong Ren Tang Group to the Group
“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
“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, excluding the Group
“Tong Ren Tang Holdings”	China Beijing Tong Ren Tang (Holdings) Corporation* (中國北京同仁堂(集團)有限責任公司), a state-owned enterprise established in the PRC on 17 August 1992 and is the ultimate controlling shareholder of the Company
“US\$”	United States dollar, the lawful currency of the United States

\* For identification purposes only

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

Hong Kong, 25 January 2017

*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)).*