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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: 8138)

**CONTINUING CONNECTED TRANSACTIONS REGARDING
RENEWAL OF THE EXCLUSIVE DISTRIBUTORSHIP
FRAMEWORK AGREEMENTS
AND
NOTICE OF EGM**

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**



A letter from the Board is set out on pages 5 to 16 of this circular and a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 17 to 18 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 19 to 28 of this circular.

A notice convening the EGM to be held at Room 1405–1409, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Friday, 1 December 2017 at 2:00 p.m., is set out on pages 35 to 36 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, Wan Chai, 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 will remain on the "Latest Company Announcement" page of the GEM website at www.hkgem.com for at least seven days from the date of its posting and on the Company's website at www.tongrentangcm.com.

15 November 2017

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

CONTENTS

	<i>Pages</i>
DEFINITION	1
LETTER FROM THE BOARD	5
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	17
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	19
APPENDIX — GENERAL INFORMATION	29
NOTICE OF EGM	35

DEFINITION

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

“associates”	has the meaning ascribed under the GEM Listing Rules
“Board”	the board of Directors
“Company”	Beijing Tong Ren Tang Chinese Medicine Company Limited, a company incorporated in Hong Kong with limited liability on 18 March 2004 and the Shares are listed on GEM
“connected persons”	has the meaning ascribed thereto under the GEM Listing Rules
“Continuing Connected Transactions”	collectively, the TRT Tech Continuing Connected Transactions and the TRT Ltd. Continuing Connected Transactions
“controlling shareholder”	has the meaning ascribed under the GEM Listing Rules
“Directors”	the directors of the Company
“EGM”	an extraordinary general meeting of the Company to be convened on Friday, 1 December 2017 at 2:00 p.m., to consider and, if thought fit, approve, among other things, the New Exclusive Distributorship Framework Agreements and the new annual caps contemplated thereunder
“Existing Exclusive Distributorship Framework Agreements”	collectively, the Existing TRT Ltd. Exclusive Distributorship Framework Agreement and the Existing TRT Tech Exclusive Distributorship Framework Agreement
“Existing TRT Ltd. Exclusive Distributorship Framework Agreement”	the exclusive distributorship framework agreement dated 28 October 2014 entered into between the Company and Tong Ren Tang Ltd. in relation to the distribution of the Relevant Products of the Tong Ren Tang Ltd. Group in markets outside PRC
“Existing TRT Tech Exclusive Distributorship Framework Agreement”	the exclusive distributorship framework agreement dated 28 October 2014 entered into between the Company and Tong Ren Tang Technologies in relation to the distribution of the Relevant Products of the Tong Ren Tang Technologies Group in markets outside PRC
“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)

DEFINITION

“Group”	the Company, its subsidiaries (either directly owned or indirectly owned) and its associates
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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 New Exclusive Distributorship Framework Agreements (including the new annual caps)
“Independent Shareholders”	Shareholders other than the Parent Group
“Latest Practicable Date”	10 November 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“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 the avoidance of doubt, excludes GEM
“New Exclusive Distributorship Framework Agreements”	collectively, the New TRT Tech Exclusive Distributorship Framework Agreement and the New TRT Ltd. Exclusive Distributorship Framework Agreement
“New TRT Ltd. Exclusive Distributorship Framework Agreement”	the exclusive distributorship framework agreement dated 8 November 2017 entered into between the Company and Tong Ren Tang Ltd. in relation to the distribution of the Relevant Products of the Tong Ren Tang Ltd. Group in markets outside PRC
“New TRT Tech Exclusive Distributorship Framework Agreement”	the exclusive distributorship framework agreement dated 8 November 2017 entered into between the Company and Tong Ren Tang Technologies in relation to the distribution of the Relevant Products of the Tong Ren Tang Technologies Group in markets outside PRC
“Parent Group”	Tong Ren Tang Holdings, Tong Ren Tang Ltd., Tong Ren Tang Technologies and their respective associates (excluding the Group)
“PRC”	the People’s Republic of China and, for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

DEFINITION

“Relevant Products”	the relevant “Tong Ren Tang” branded products supplied by the Tong Ren Tang Ltd. Group or the Tong Ren Tang Technologies Group (as the case may be) to TRT International Natural-Pharm under the New Exclusive Distributorship Framework Agreements for the purpose of the distribution of such products in the markets outside PRC
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholder(s)”	the shareholder(s) of the Company
“Sommerley” or “Independent Financial Adviser”	Sommerley 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 New Exclusive Distributorship Framework Agreements (including the new annual caps)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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) and its associates (other than the Tong Ren Tang Technologies Group and the Group)
“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

DEFINITION

“Tong Ren Tang Technologies Group”	Tong Ren Tang Technologies, its subsidiaries (either directly owned or indirectly owned) and its associates (other than the Group)
“TRT International Natural-Pharm”	Beijing Tong Ren Tang International Natural-Pharm Co., Ltd., a company incorporated in the PRC with limited liability on 6 March 2006 and a wholly-owned subsidiary of the Company
“TRT Ltd. Continuing Connected Transactions”	the continuing connected transactions which have been and will continue to be entered into between the Group and the Tong Ren Tang Ltd. Group, details of which are set out in the paragraph headed “2. The New Exclusive Distributorship Framework Agreements — (ii) The New TRT Ltd. Exclusive Distributorship Framework Agreement” in the Letter from the Board of this circular
“TRT Tech Continuing Connected Transactions”	the continuing connected transactions which have been and will continue to be entered into between the Group and the Tong Ren Tang Technologies Group, details of which are set out in the paragraph headed “2. The New Exclusive Distributorship Framework Agreements — (i) The New TRT Tech Exclusive Distributorship Framework Agreement” in the Letter from the Board of this circular

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: 8138)

Non-executive Director:
Mr. Mei Qun (*Chairman*)

Executive Directors:
Ms. Ding Yong Ling
Mr. Zhang Huan Ping
Ms. Lin Man

Independent non-executive Directors:
Mr. Tsang Yok Sing, Jasper
Mr. Zhao Zhong Zhen
Mr. Chan Ngai Chi

Registered Office:
Room 1405-1409
Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

15 November 2017

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS REGARDING
RENEWAL OF THE EXCLUSIVE DISTRIBUTORSHIP
FRAMEWORK AGREEMENTS
AND
NOTICE OF EGM**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 28 October 2014 in relation to the entering of the Existing TRT Tech Exclusive Distributorship Framework Agreement and the Existing TRT Ltd. Exclusive Distributorship Framework Agreement by the Company with each of Tong Ren Tang Technologies and Tong Ren Tang Ltd., respectively.

LETTER FROM THE BOARD

The Group is the primary overseas distribution platform of the Parent Group and is the only member of the Parent Group solely distributing PRC manufactured “Tong Ren Tang” branded Chinese medicine products outside PRC. The renewal of the Existing Exclusive Distributorship Framework Agreements is to ensure the continuity of the exclusive distributorship arrangement outside PRC, which is of utmost importance to the Parent Group as well as the Group.

As each of the Existing Exclusive Distributorship Framework Agreements will expire after 31 December 2017, the Company entered into the New TRT Tech Exclusive Distributorship Framework Agreement with Tong Ren Tang Technologies and the New TRT Ltd. Exclusive Distributorship Framework Agreement with Tong Ren Tang Ltd. to extend the respective Continuing Connected Transactions for a further term of three years.

The purpose of this circular is to provide you with, among other things, (i) further information in relation to the New Exclusive Distributorship Framework Agreements and the new 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.

Details of the terms of the New Exclusive Distributorship Framework Agreements are set out as follows:

2. THE NEW EXCLUSIVE DISTRIBUTORSHIP FRAMEWORK AGREEMENTS

(i) The New TRT Tech Exclusive Distributorship Framework Agreement

Date: 8 November 2017

Parties: (1) the Company
(2) Tong Ren Tang Technologies

Term: The New TRT Tech Exclusive Distributorship Framework Agreement shall be for a term of three years from 1 January 2018 to 31 December 2020 (both days inclusive) and shall be effective upon the approval of the Independent Shareholders at the EGM.

Major terms and conditions

- The Tong Ren Tang Technologies Group appoints TRT International Natural-Pharm, a wholly-owned subsidiary of the Company, as its sole overseas distributor for the distribution of the Relevant Products of the Tong Ren Tang Technologies Group in markets outside PRC.

LETTER FROM THE BOARD

- Within the term of the New TRT Tech Exclusive Distributorship Framework Agreement and for the purpose of the overseas distribution of the Relevant Products of the Tong Ren Tang Technologies Group, TRT International Natural-Pharm will procure from the Tong Ren Tang Technologies Group, and the Tong Ren Tang Technologies Group shall supply to TRT International Natural-Pharm, the Relevant Products as agreed by the parties.
- The Tong Ren Tang Technologies Group shall provide trainings on the Relevant Products of the Tong Ren Tang Technologies Group and the Company is responsible for the registration and promotion of Relevant Products in markets outside PRC.
- Individual distribution agreement will be signed by members of the Tong Ren Tang Technologies Group and TRT International Natural-Pharm during the term of the New TRT Tech Exclusive Distributorship Framework Agreement to set out details of the quantity, price, specifications, standards, delivery time and settlement of the Relevant Products supplied, save as such individual distribution agreement shall be entered into on normal commercial terms as well as in accordance with the provisions of the New TRT Tech Exclusive Distributorship Framework Agreement.

Pricing policy:

- The price of the Relevant Products supplied by the Tong Ren Tang Technologies Group to TRT International Natural-Pharm shall not be higher than the wholesale price of the Relevant Products sold by the Tong Ren Tang Technologies Group to the wholesale customers in the PRC.
- Payment of the price will be specified in individual distribution agreement to be signed between members of the Tong Ren Tang Technologies Group and TRT International Natural-Pharm.

LETTER FROM THE BOARD

- TRT International Natural-Pharm shall obtain an updated wholesale price list and payment terms of the Relevant Products which they have offered to independent third parties from members of the Tong Ren Tang Technologies Group on a quarterly basis so as to determine whether the price and terms offered to TRT International Natural-Pharm are fair and reasonable and comparable to those they offered to their unrelated wholesale customers in the PRC. Members of the Tong Ren Tang Technologies Group shall also notify TRT International Natural-Pharm in case there is any material update of the said wholesale price list and payment terms of the Relevant Products from time to time.

(ii) The New TRT Ltd. Exclusive Distributorship Framework Agreement

Date: 8 November 2017

Parties: (1) the Company
(2) Tong Ren Tang Ltd.

Term: The New TRT Ltd. Exclusive Distributorship Framework Agreement shall be for a term of three years from 1 January 2018 to 31 December 2020 (both days inclusive) and shall be effective upon the approval of the Independent Shareholders at the EGM.

Major terms and conditions:

- The Tong Ren Tang Ltd. Group appoints TRT International Natural-Pharm, as its sole overseas distributor for the distribution of the Relevant Products of the Tong Ren Tang Ltd. Group in markets outside PRC.
- Within the term of the New TRT Ltd. Exclusive Distributorship Framework Agreement and for the purpose of the overseas distribution of the Relevant Products of the Tong Ren Tang Ltd. Group, TRT International Natural-Pharm will procure from the Tong Ren Tang Ltd. Group, and the Tong Ren Tang Ltd. Group shall supply to TRT International Natural-Pharm, the Relevant Products as agreed by the parties.
- The Tong Ren Tang Ltd. Group shall provide trainings on the Relevant Products of the Tong Ren Tang Ltd. Group and the Company is responsible for the registration and promotion of Relevant Products in markets outside PRC.

LETTER FROM THE BOARD

- Individual distribution agreement will be signed by members of the Tong Ren Tang Ltd. Group and TRT International Natural-Pharm during the term of the New TRT Ltd. Exclusive Distributorship Framework Agreement to set out details of the quantity, price, specifications, standards, delivery time and settlement of the Relevant Products supplied, save as such individual distribution agreement shall be entered into on normal commercial terms as well as in accordance with the provisions of the New TRT Ltd. Exclusive Distributorship Framework Agreement.

Pricing policy:

- The price of the Relevant Products supplied by the Tong Ren Tang Ltd. Group to TRT International Natural-Pharm shall not be higher than the wholesale price of the Relevant Products sold by the Tong Ren Tang Ltd. Group to the wholesale customers in the PRC.
- Payment of the price will be specified in individual distribution agreement to be signed between members of the Tong Ren Tang Ltd. Group and TRT International Natural-Pharm.
- TRT International Natural-Pharm shall obtain an updated wholesale price list and payment terms of the Relevant Products which they have offered to independent third parties from members of the Tong Ren Tang Ltd. Group on a quarterly basis so as to determine whether the price and terms offered to TRT International Natural-Pharm are fair and reasonable and comparable to those they offered to their unrelated wholesale customers in the PRC. Members of the Tong Ren Tang Ltd. Group shall also notify TRT International Natural-Pharm in case there is any material update of the said wholesale price list and payment terms of the Relevant Products from time to time.

LETTER FROM THE BOARD

HISTORICAL FIGURES AND PROPOSED ANNUAL CAPS

Set out below is the aggregate historical amounts paid/payable by the Group in respect of its purchase of the Relevant Products for its distribution in markets outside PRC for the three years ended 31 December 2016 and nine months ended 30 September 2017 as well as the previous annual caps:

	Year ended 31 December						Nine months ended 30 September 2017	Year ending 31 December 2017
	2014		2015		2016		2017	2017
	<i>(HK\$ million)</i>		<i>(HK\$ million)</i>		<i>(HK\$ million)</i>		<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
	(Audited)		(Audited)		(Audited)		(Unaudited)	
	Actual amounts	Historical Cap	Actual amounts	Historical Cap	Actual amounts	Historical Cap	Actual amounts	Historical Cap
Amounts paid/payable under the Existing TRT Tech Exclusive Distributorship Framework Agreement	13.7		15.8		27.1		43.8	
Amounts paid/payable under the Existing TRT Ltd. Exclusive Distributorship Framework Agreement	33.3		38.4		45.3		56.6	
Total paid/payable amounts	47.0	69.0	54.2	90.3	72.4	106.4	100.4	125.2

The proposed annual caps (exclusive of value-added tax in the PRC) under the New Exclusive Distributorship Framework Agreements for each of the three years ending 31 December 2018, 2019 and 2020 are set out below:

Proposed annual caps (exclusive of value-added tax in the PRC)	For the year ending 31 December		
	2018	2019	2020
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
New TRT Tech Exclusive Distributorship Framework Agreement	58.4	76.4	99.2
New TRT Ltd. Exclusive Distributorship Framework Agreement	<u>87.6</u>	<u>114.6</u>	<u>148.8</u>
Total proposed annual caps (exclusive of value-added tax in the PRC)	<u>146.0</u>	<u>191.0</u>	<u>248.0</u>

LETTER FROM THE BOARD

The proposed annual caps set out above are determined based on the following factors which are applicable to both of the New Exclusive Distributorship Framework Agreements:

- (a) the historical figures of the relevant transactions and the historical annual caps as disclosed above. It is expected that the annual cap for the year 2017 will nearly be fully utilized by the end of 2017;
- (b) approximately HK\$20 million of inventories from 2017 onwards will be maintained by the Group as a whole to ensure stable supply and timely delivery of products to its distributors;
- (c) the expected improving market conditions and the continuous increase in demand for the different types of the Relevant Products in markets outside PRC based on the continuous increase of the Group's sales of Chinese medicine products for the nine months ended 30 September 2017;
- (d) the continuous increase in scale and business operation of the Group as a result of the continuous expansion of its global sales network of Chinese medicine. As at 30 September 2017, the business of the Group has expanded to 19 countries and regions outside PRC. The number of retail outlets has increased from 56 in 2014 to 72 as at 30 September 2017, and will further gradually expand in the next three years;
- (e) the expected increase in supply prices for the Relevant Products over the next three years as a result of the continuous increase in manufacturing costs, in particular, continuous increase in costs in labour and raw materials;
- (f) the expected increase in transaction amounts between the Group with each of the Tong Ren Tang Technologies Group and the Tong Ren Tang Ltd. Group under the New Exclusive Distributorship Framework Agreements taking into account the above items (b), (c) and (d) which led to a possible increase in demand of the different types of the Relevant Products (increase in transaction volume) as well as the increase in supply prices as explained in item (e) above; and
- (g) a buffer of approximately 10% for the estimated amount of the distribution of the Relevant Products by the Group under the New Exclusive Distributorship Framework Agreements so as to accommodate any unexpected increase in the aforesaid transaction volume amount (as a result of any unexpected increase in market demand for the Relevant Products) or unexpected increase in the cost of supply or a change in exchange rate.

Such 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 or the Tong Ren Tang Ltd. Group.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The transactions contemplated under the New Exclusive Distributorship Framework Agreements are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group.

The Directors consider that securing a long-term business relationship with the Tong Ren Tang Ltd. Group and the Tong Ren Tang Technologies Group who have reputable business associated with profound experience in the Chinese medicine industry in the PRC is beneficial to the Group. The increased co-operation would be expected to bring considerable and stable contribution to the Group's revenue and profitability in the long run. Accordingly, the entering into the New Exclusive Distributorship Framework Agreements is in the interests of the Company and the Shareholders as a whole.

The Directors (including the independent non-executive Directors) are of the view that the New Exclusive Distributorship Framework Agreements (including the caps thereunder) (i) have been negotiated on an arm's length basis; (ii) have been conducted and will continue to be conducted on normal commercial terms, or on terms no less favourable than those available to or from independent third parties under prevailing local market conditions; (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.

MEASURES OF INTERNAL CONTROL

To ensure the Group's conformity with the above-mentioned pricing policies in relation to the Continuing Connected Transactions, the Group adopts the following internal control policies for its daily operation:

- (i) relevant business departments of the Group are responsible for specific implementation and supervision of the Continuing Connected Transactions, so as to ensure that such transactions are conducted in accordance with the terms of the New Exclusive Distributorship Framework Agreements;
- (ii) the financial department of the Company is responsible for collecting detailed information of the Continuing Connected Transactions (including but not limited to the payment arrangements and actual transaction amount under each of the specific implementation agreements) on a regular basis, so as to ensure that the amount of the transaction does not exceed the established annual caps. If there is any imminent or possible exceeding of the annual caps of the Continuing Connected Transactions, the relevant business departments shall report as soon as possible to the compliance department of the Company to determine the necessity to revise the annual caps on a timely basis. If the compliance department confirms the necessity to revise the annual caps, the relevant business departments shall propose the revised annual caps and reasons for adjustment, and relevant approval and disclosure procedures shall be implemented as soon as practicable. Prior to the compliance of all of the

LETTER FROM THE BOARD

approval and disclosure procedures, the relevant business departments involved in the Continuing Connected Transactions shall closely monitor, and ensure that the transaction amounts do not exceed the annual caps;

- (iii) the Company shall regularly provide relevant business departments with trainings on the requirements for continuing connected transactions under the GEM Listing Rules so as to ensure the adequacy of relevant staff's qualifications and experience;
- (iv) as mentioned above, TRT International Natural-Pharm shall procure an updated wholesale price list and payment terms of the Relevant Products which the Tong Ren Tang Technologies Group and the Tong Ren Tang Ltd. Group have offered to independent third parties from members of the Tong Ren Tang Technologies Group and the Tong Ren Tang Ltd. Group on a quarterly basis so as to determine whether that the price and terms offered to TRT International Natural-Pharm are fair and reasonable and comparable to those they offered to their unrelated wholesale customers in the PRC. Members of the Tong Ren Tang Technologies Group and the Tong Ren Tang Ltd. Group shall also notify TRT International Natural-Pharm in case there is any material update of the said wholesale price list and payment terms of the Relevant Products from time to time;
- (v) the independent non-executive Directors and the auditor of the Company will also on a regular basis be provided with (i) the New Exclusive Distributorship Framework Agreements; (ii) sales contracts entered into between the Tong Ren Tang Technologies Group or the Tong Ren Tang Ltd. Group and independent third parties for the supply of the Relevant Products; (iii) individual distribution agreements entered into between the Group and the Tong Ren Tang Technologies Group or the Tong Ren Tang Ltd. Group (as the case may be); and (iv) the quarterly updated wholesale price lists and payment terms of the Relevant Products;
- (vi) the independent non-executive Directors have reviewed and will continue to review and compare the relevant payment terms, payment method and price payable under these agreements and sales contracts to ensure that the transactions contemplated under the New Exclusive Distributorship Framework Agreements are conducted on normal commercial terms, are fair and reasonable, are comparable to those entered into between the Tong Ren Tang Technologies Group or the Tong Ren Tang Ltd. Group (as the case may be) and independent third parties and are carried out pursuant to the terms of such agreements; and
- (vii) the auditor of the Company has reviewed and will also continue to conduct annual review on the pricing and annual caps of the Continuing Connected Transactions and confirm the transactions contemplated under the New Exclusive Distributorship Framework Agreements are conducted in accordance with the terms of the New Exclusive Distributorship Framework Agreements.

LETTER FROM THE BOARD

GEM LISTING RULES IMPLICATIONS

Each of Tong Ren Tang Ltd. and Tong Ren Tang Technologies is a controlling shareholder of the Company, and is therefore a connected person of the Company under the GEM Listing Rules. Accordingly, the transactions contemplated under each of the New Exclusive Distributorship Framework Agreements 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 Continuing Connected Transactions exceed 5% and the new annual caps is more than HK\$10,000,000, the New Exclusive Distributorship Framework Agreements and the respective transactions contemplated thereunder are subject to the 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 and the vice chairman of Tong Ren Tang Ltd.) are considered to have material interests in the New Exclusive Distributorship Framework Agreements by virtue of their positions in the Parent Group and have abstained from voting on the relevant resolutions in the Board meeting to approve such agreements. Save as disclosed, there is no other Director who has a material interest in the transactions contemplated under the New Exclusive Distributorship Framework Agreements.

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 Technologies

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

Tong Ren Tang Ltd.

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

TRT International Natural-Pharm

TRT International Natural-Pharm is principally engaged in the sale and distribution of Chinese medicines and healthcare products.

LETTER FROM THE BOARD

3. EGM

A notice convening the EGM to be held at Room 1405–1409, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Friday, 1 December 2017 at 2:00 p.m., is set out on pages 35 to 36 of this circular at which ordinary resolutions will be proposed for the Independent Shareholders to consider and, if thought fit, to approve the revision to the terms of the New Exclusive Distributorship Framework Agreements and the proposed new annual caps.

Votes on the resolutions to be proposed at the EGM shall be taken by way of poll. In accordance with the GEM 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 New Exclusive Distributorship 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 issued shares of the Company), control or are entitled to control over the voting right in respect of their shares of 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 New Exclusive Distributorship Framework Agreements is required to abstain from voting on such resolutions at the EGM.

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.

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 New Exclusive Distributorship Framework Agreements and the new 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 New Exclusive Distributorship Framework Agreements and the principal factors and reasons taken into account by the Independent Financial Adviser in arriving at its advice.

LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) are of the view that the terms of the New Exclusive Distributorship Framework Agreements (including the new annual caps) (a) have been negotiated on an arm's length basis; (b) will be conducted on normal commercial terms; (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 New Exclusive Distributorship Framework Agreements (including the proposed new annual caps) by way of poll.

By order of the Board
Beijing Tong Ren Tang Chinese Medicine Company Limited
Mei Qun
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 New Exclusive Distributorship Framework Agreements (including the proposed new 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: 8138)

15 November 2017

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS REGARDING RENEWAL OF THE EXCLUSIVE DISTRIBUTORSHIP FRAMEWORK AGREEMENTS

We refer to a circular (the “**Circular**”) of the Company dated 15 November 2017 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 the New Exclusive Distributorship Framework Agreements and the proposed annual caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered the terms of the New Exclusive Distributorship Framework Agreements and the proposed new annual caps and the advice of the Independent Financial Adviser in relation the New Exclusive Distributorship Framework Agreements and the proposed new annual caps thereto as set out in the Circular, we are of the opinion that the terms of the New Exclusive Distributorship Framework Agreements (together with the proposed new annual caps) are fair and reasonable so far as the Independent Shareholders are concerned and are 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 in the Circular. We have also considered, amongst others, the various factors contained in such letter.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the New Exclusive Distributorship Framework Agreements (including the proposed new 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, 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

15 November 2017

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

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS REGARDING RENEWAL OF THE EXCLUSIVE DISTRIBUTORSHIP FRAMEWORK AGREEMENTS

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in connection with the New Exclusive Distributorship Framework Agreements and the transactions contemplated thereunder together with the proposed new annual caps of the transactions under the New Exclusive Distributorship Framework Agreements for each of the three years ending 31 December 2020 (the “**New Annual Caps**”). Details of the terms of New Exclusive Distributorship Framework Agreements (together with the New Annual Caps) are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 15 November 2017 (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.

Pursuant to the Existing Exclusive Distributorship Framework Agreements, Tong Ren Tang Technologies and Tong Ren Tang Ltd. appointed TRT International Natural-Pharm, a wholly-owned subsidiary of the Company, as the sole overseas distributor for the distribution of the Relevant Products in the markets outside PRC for a term from 1 January 2015 to 31 December 2017. On 8 November 2017, the Company entered into the New Exclusive Distributorship Framework Agreements with Tong Ren Tang Technologies and Tong Ren Tang Ltd. to renew the existing agreements for a term of three years from 1 January 2018 to 31 December 2020.

As stated in the letter from the Board, each of Tong Ren Tang Ltd. and Tong Ren Tang Technologies is the controlling shareholder of the Company and is therefore a connected person of the Company under the GEM Listing Rules. Accordingly, the transactions

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

contemplated under each of the New Exclusive Distributorship Framework Agreements 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 New Annual Caps exceed 5% and the New Annual Caps are more than HK\$10,000,000, the New Exclusive Distributorship Framework Agreements and the transactions contemplated thereunder are subject to reporting, announcement and annual review requirements, as well as the requirement of independent shareholders' approval under the GEM 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 New Exclusive Distributorship Framework Agreements and the transactions contemplated thereunder (together with the New Annual Caps). We, Somerley, 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 Ltd., 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 New Exclusive Distributorship Framework Agreements and the transactions contemplated thereunder (together with the New 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 Ltd., Tong Ren Tang Technologies, or their respective substantial shareholders or associates.

During the past two years, Somerley acted as the independent financial adviser and issued opinion letters contained in the Company's circular dated 19 December 2016 in relation to continuing connected transactions of the Group. The past engagement was limited to providing independent advisory services to the Independent Board Committee and Independent Shareholders pursuant to the GEM Listing Rules. Under the past engagement, Somerley received normal professional fees from the Company. Notwithstanding the past engagement, as at the Latest Practicable Date, there were no relationships or interests between Somerley on one hand and the Group, Tong Ren Tang Ltd. Group and Tong Ren Tang Technologies Group on the other hand that could reasonably be regarded as a hindrance to our independence as defined under Rule 17.96 of the GEM Listing Rules to act as the independent financial adviser to the Independent Board Committee and Independent Shareholders in connection with the New Exclusive Distributorship Framework Agreements and the transactions contemplated thereunder (together with the New Annual Caps).

In formulating our opinion, we have reviewed, amongst others, the New Exclusive Distributorship Framework Agreements, the interim report of the Company for the six months ended 30 June 2017 (the "**Interim Report**"), the annual report of the Company for the year ended 31 December 2016 (the "**Annual Report**") and the information contained in the Circular. We have also discussed with and reviewed information provided by the management

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

of the Group regarding the businesses of the Group, the prospects of conducting the New Exclusive Distributorship 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 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 terms of the New Exclusive Distributorship Framework Agreements and the transactions contemplated thereunder (together with the New 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. TRT International Natural-Pharm, a wholly-owned subsidiary of the Company, is principally engaged in the sale and distribution of Chinese medicines and healthcare products.

2. Information on Tong Ren Tang Ltd.

Tong Ren Tang Ltd., a joint stock limited company established in the PRC and listed in Shanghai since 1997, is one of the controlling shareholders of the Company and also holds 46.85% in Tong Ren Tang Technologies. It is principally engaged in the manufacturing and sale of Chinese medicines.

3. Information on Tong Ren Tang Technologies

Tong Ren Tang Technologies, a joint stock limited company established in the PRC and listed in Hong Kong since 2000, is one of the controlling shareholders of the Company. Tong Ren Tang Technologies is principally engaged in the manufacturing and sale of Chinese medicines.

4. Reasons for and benefits of the Continuing Connected Transactions

The Group is the primary overseas distribution platform of the Parent Group and is the only member of the Parent Group solely distributing the PRC manufactured “Tong Ren Tang” branded Chinese medicine products outside PRC. The transactions contemplated under the New Exclusive Distributorship Framework Agreements are expected to be of a recurrent nature and will occur on a regular and continuing basis in the ordinary and usual course of business of the Group.

As each of the Existing Exclusive Distributorship Framework Agreements will expire after 31 December 2017, the renewal is to ensure the continuity of the exclusive distributorship arrangement outside PRC, which is of utmost importance to the Parent Group as well as the Group. The Directors consider that securing a long-term business relationship with the Tong Ren Tang Ltd. Group and Tong Ren Tang Technologies Group which have reputable business associated with profound experience in the Chinese medicine industry in the PRC is beneficial to the Group. The increased co-operation would also be expected to bring considerable and stable contribution to the Group’s revenue and profitability in the long run.

Based on the above, we concur with the Directors’ view that the entering into of the New Exclusive Distributorship Framework Agreements are in the ordinary and usual course of the business of the Group and we consider that it is in the interests of the Company and the Shareholders as a whole.

5. Principal terms of the New Exclusive Distributorship Framework Agreements

Pursuant to the New Exclusive Distributorship Framework Agreements, Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group appoint TRT International Natural-Pharm as the sole overseas distributor for the distribution of the Relevant Products in the markets outside PRC. The New Exclusive Distributorship Framework Agreements will be valid for a term of three years from 1 January 2018 to 31 December 2020 (both days inclusive) and will be effective upon the approval of the Independent Shareholders at the EGM. Details of the quantity, price, specifications, standards, delivery time and settlement of the Relevant Products supplied shall be stated in an individual distribution agreement signed by the parties. The price of the Relevant Products shall not be higher than the wholesale price of the Relevant Products sold by the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group to their unrelated wholesale customers in the PRC. Payment of the price will be specified in individual distribution agreement to be signed between the parties.

The Group shall obtain an updated wholesale price list and payment terms of the Relevant Products that have been offered to independent third parties from members of the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group on a quarterly basis so as to determine whether the price and terms offered to the Group are fair and reasonable and comparable to those offered to unrelated wholesale customers in the PRC. The Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group shall also notify the Group in case there is any material update of the said wholesale price list and payment terms of the Relevant Products from time to time.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Under both the Existing Exclusive Distributorship Framework Agreements and the New Exclusive Distributorship Framework Agreements, the Group shall not be offered a price higher than the wholesale price of the Relevant Products sold by the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group to the unrelated wholesale customers in the PRC during the respective terms. The Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group also entered into sales contracts with other PRC distributors, which are independent of and not connected with the Company and its connected persons, for distributing the Relevant Products in the PRC (“**Third Party Sales Contracts**”). We have reviewed six samples each of sales contracts between the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group on one hand and the Group on the other and the Third Party Sales Contracts entered into in each of 2016 and 2017, which is considered to be a fair and representative sample given that such sales contracts are generally entered into on a monthly basis and the samples are selected evenly across the year, and noted the pricing of the Relevant Products and payment terms offered to the third party wholesalers in the Third Party Sales Contracts are no more favorable than those offered to the Group in the sales contracts entered into with the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group. On this basis, we consider that the purchases of the Relevant Products by the Group from the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group have been carried out in accordance with the Existing Exclusive Distributorship Framework Agreements.

Since the terms of the New Exclusive Distributorship Framework Agreements, which were arrived at after arm’s length negotiations between the Company with the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group, are substantially the same as the existing ones, and given the pricing of the Relevant Products will be determined on an arm’s length basis and at rates not higher than those offered by the Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group to the unrelated wholesalers in the PRC and the payment terms will always be on normal commercial terms, we consider the terms of the New Exclusive Distributorship 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 20.53 of the GEM Listing Rules and as stated in the letter from the Board of the Circular, review and compare the relevant payment terms, payment method and price payable under the relevant agreements and sales contracts to ensure that the transactions contemplated under the New Exclusive Distributorship Framework Agreements are conducted on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of such agreements; and (ii) the auditors of the Company will, for the purpose of Rule 20.54 of the GEM Listing Rules, conduct annual review on the pricing and annual caps of the Continuing Connected Transactions, we are of the view that adequate measures have been put in place, as required under the GEM Listing Rules mentioned above, to monitor the transactions contemplated under the New Exclusive Distributorship Framework Agreements in order to protect the interests of the Company and the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. The New Annual Caps (exclusive of value-added tax in the PRC)

Set out below are the proposed New Annual Caps (exclusive of value-added tax in the PRC) for each of the three years ending 31 December 2018, 2019 and 2020:

	For the financial year ending 31 December		
	2018	2019	2020
	<i>(HK\$' million)</i>	<i>(HK\$' million)</i>	<i>(HK\$' million)</i>
Purchase of Relevant Products by the Group from Tong Ren Tang Technologies. (exclusive of value-added tax in the PRC)	58.4	76.4	99.2
Purchase of Relevant Products by the Group from Tong Ren Tang Ltd. (exclusive of value-added tax in the PRC)	87.6	114.6	148.8
Total	146.0	191.0	248.0

Shareholders should note that the New Annual Caps (exclusive of value-added tax in the PRC) 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 or Tong Ren Tang Ltd. Group.

We have reviewed and discussed with the management of the Group the calculation of the proposed New Annual Caps (exclusive of value-added tax in the PRC) for the purchase of the Relevant Products from the Tong Ren Tang Technologies Group and the Tong Ren Tang Ltd. Group for the years ending 31 December 2018, 2019 and 2020.

(i) Purchase of the Relevant Products in 2015–2017

Set out below are the Group's actual and projected purchase of the Relevant Products for its distribution in markets outside PRC for the three years ended 31 December 2014, 2015 and 2016, for the nine months ended 30 September 2017 and for the year ending 31 December 2017 respectively:

	For the year ended 31 December 2014	For the year ended 31 December 2015	For the year ended 31 December 2016	For the nine months ended 30 September 2017	For the year ending 31 December 2017
	<i>(HK\$' million)</i>	<i>(HK\$' million)</i>	<i>(HK\$' million)</i>	<i>(HK\$' million)</i>	<i>(HK\$' million)</i>
	Actual amount	Actual amount	Actual amount	Actual amount	Projected amount
Total purchase of Relevant Products	47.0	54.2	72.4	100.4	125.2
Less: Inventories	N/A	N/A	N/A	N/A	(23.3)
	47.0	54.2	72.4	100.4	101.9
<i>Year-on-year growth rate (%)</i>	<i>N/A</i>	<i>+15.3%</i>	<i>+33.6%</i>	<i>N/A</i>	<i>+40.7%</i>

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out above, the actual purchase of the Relevant Products for its distribution in markets outside PRC increased 15.3% and 33.6% for the two years ended 31 December 2015 and 2016 respectively.

As advised by the Company, in response to the growing overseas demand for Chinese medicine and the shorter delivery time as required by the distributors, the Group expected that approximately HK\$20 million of inventories from 2017 onwards would be maintained for the purpose of ensuring stable supply and timely delivery of products to its distributors. Excluding the inventories, the balance of the purchase of the Relevant Products for the year ending 31 December 2017 is projected based on (i) the actual purchase for the 9 months ended 30 September 2017; and (ii) the purchase orders mainly from the distributors in Hong Kong, Malaysia, Canada and Thailand for the 3 months ending 31 December 2017. The Group therefore expects the total purchase of the Relevant Products from the Tong Ren Tang Ltd. Group and Tong Ren Tang Technologies Group to be HK\$101.9 million (excluding the inventories) for the year ending 31 December 2017, representing an increase of 40.7% year-on-year. The average annual growth rate of the purchase of Relevant Products (excluding the inventories) for 2015–2017 is approximately 30%.

As advised by the Company, the increase of the Group's purchase of Relevant Products in the past three years has been mainly due to the accelerating establishment of retail outlets, widening presence in overseas markets and expanding wholesale business through third-party distributors. The Company has continually expanded its business coverage across 19 countries and regions outside PRC and increased the number of retail outlets from 56 in 2014 to 72 as at 30 September 2017. In addition, the wholesale business in both local and overseas markets (e.g. Thailand, Malaysia, Canada and Singapore) also saw substantial growth in the past three years. As advised by the Company, extensive promotion of the traditional Chinese medicine culture and the Tong Ren Tang brand in these markets by the Group has contributed to the expanding wholesale business. As set out in the Annual Report and Interim Report, promotion and advertising expenses have increased substantially by 95.8% year-on-year in 2016 and 145.7% period-on-period in the first half of 2017. The management of the Group believes that the promotion efforts enhanced consumers' acknowledgement of Chinese medicine and Tong Ren Tong products as well as boosted the number of other local drug stores cooperating with the third-party distributors and the local sales of Tong Ren Tong products in 2017.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(ii) *New Annual Caps (exclusive of value-added tax in the PRC)*

Set out below are the Group's projected purchase of the Relevant Products for its distribution in other markets outside PRC for the three years ending 31 December 2018, 2019 and 2020:

	For the year ending 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020
	<i>(HK\$' million)</i>	<i>(HK\$' million)</i>	<i>(HK\$' million)</i>
Markets outside PRC	132.5	172.2	223.9
Buffer	13.5	18.8	24.1
Total	146.0	191.0	248.0

We have also discussed with and reviewed the sales projection of the Relevant Products by countries in 2018–2020 provided by the management of the Group. As advised by the management, such projection has been prepared after taking into account its business plan including expansion into other overseas markets and related marketing expenses and discussion with its local distributors on their demand for the Relevant Products in the following years. While the Company expects its marketing expenses to be stabilized in the next few years, the Group's sale of Relevant Products is expected to achieve a stable growth annually on the back of expanding distribution network, ongoing promotion efforts and improving market conditions.

On the above basis, we understand that the 2018 New Annual Cap has been determined based on (i) the actual purchase of the Relevant Products (excluding the inventories) for nine months ended 30 September 2017 and the purchase orders from the distributors for the three months ending 31 December 2017; (ii) the average of the actual and projected annual growth rate of purchase of the Relevant Products (excluding the inventories) for 2015–2017; and (iii) a buffer of approximately 10.2% which is to allow flexibility to the Group's operations and to accommodate any unexpected increases in the transaction volume amount (as a result of any unexpected increase in market demand for the Relevant Products) or the cost of supply or a change in exchange rate. We have reviewed the purchase orders of the Relevant Products received from the Group's distributors in Hong Kong, Malaysia, Canada and Thailand for the three months ending 31 December 2017 and therefore consider the basis for determining the 2018 New Annual Cap to be fair and reasonable.

The 2019 New Annual Cap has been determined based on (i) the projected purchase of Relevant Products for the year ending 31 December 2018 for the purpose of determining the 2018 New Annual Cap; (ii) the average annual growth rate of approximately 30% for the Group's purchase of the Relevant Products for 2015–2017; and (iii) a buffer of approximately 10.9% for any unexpected increases in the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

transaction volume amount (as a result of any unexpected increase in market demand for the Relevant Products) or the cost of supply or a change in exchange rate. Likewise, the 2020 New Annual Cap has been determined based on (i) the projected purchase of Relevant Products for the year ending 31 December 2019 for the purpose of determining the 2019 New Annual Cap; (ii) the average annual growth rate of approximately 30% for the Group's purchase of the Relevant Products for 2015–2017; and (iii) a buffer of approximately 10.8% for any unexpected increases in the transaction volume amount (as a result of any unexpected increase in market demand for the Relevant Products) or the cost of supply or a change in exchange rate.

	For the nine months ended	For the year ending	For the year ending 31 December		
	30 September 2017 <i>(HK\$ million)</i> <i>(Unaudited)</i>	31 December 2017 <i>(HK\$ million)</i>	2018 <i>(HK\$ million)</i>	2019 <i>(HK\$ million)</i>	2020 <i>(HK\$ million)</i>
	Actual amount	Projected amount	New Annual Cap (exclusive of value-added tax in the PRC)		
New TRT Tech Exclusive Distributorship Framework Agreement	43.8	49.6	58.4	76.4	99.2
Approximate % of total amount	—	40%	40%	40%	40%
New TRT Ltd. Exclusive Distributorship Framework Agreement	56.6	75.6	87.6	114.6	148.8
Approximate % of total amount	—	60%	60%	60%	60%
Total	<u>100.4</u>	<u>125.2</u>	<u>146.0</u>	<u>191.0</u>	<u>248.0</u>

The split of the New Annual Caps (exclusive of value-added tax in the PRC) between New TRT Tech Exclusive Distributorship Framework Agreement and New TRT Ltd. Exclusive Distributorship Framework Agreement is based on the actual and projected amounts paid/payable to Tong Ren Tang Technologies and Tong Ren Tang Ltd. for the year ending 31 December 2017 under the Existing Exclusive Distributorship Framework Agreements. As set out in the table above, the amount paid/payable to Tong Ren Tang Technologies and Tong Ren Tang Ltd. amounted to approximately 40% and 60% of the total projected amount for the year ending 31 December 2017. Likewise, the split adopted for the New Annual Caps (exclusive of value-added tax in the PRC) for each of the three years ending 31 December 2018, 2019 and 2020 is 40% for New TRT Tech Exclusive Distributorship Framework Agreement and 60% for New TRT Ltd. Exclusive Distributorship Framework Agreement.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

On the above basis, we are of the view that the New Annual Caps (exclusive of value-added tax in the PRC) are fair and reasonable so far as the Independent Shareholders are concerned.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that (i) the entering into of the New Exclusive Distributorship Framework Agreements are 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 New Exclusive Distributorship Framework Agreements and the transactions contemplated thereunder (together with the New 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 resolutions to be proposed at the EGM in relation to the terms of the New Exclusive Distributorship Framework Agreements and the transactions contemplated thereunder (together with the New 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 SFC to carry out type 6 (advising on corporate finance) regulated activity 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 GEM 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 Rules 5.48 to 5.67 of the GEM 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
The Company				
Ding Yong Ling	Personal	Beneficial owner	250,000	0.029%
Lin Man	Personal	Beneficial owner	220,000	0.026%
Tong Ren Tang Technologies				
Mei Qun	Personal	Beneficial owner	3,000,000 ⁽¹⁾	0.234%
Tong Ren Tang Ltd.				
Mei Qun	Personal	Beneficial owner	93,242 ⁽²⁾	0.007%

Notes:

- (1) These shares represent 0.46% of domestic shares of Tong Ren Tang Technologies.
- (2) All represent A shares of Tong Ren Tang Ltd..

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 standards of dealing by Directors as referred to in Rules 5.48 to 5.67 of the GEM 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 shareholder	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%
Greenwoods Asset Management Holdings Limited ⁽³⁾	Interest of a controlled corporation	45,936,000	5.49%
Greenwoods Asset Management Limited ⁽³⁾	Interest of a controlled corporation	45,936,000	5.49%
Jiang Jinzhi ⁽³⁾	Interest of a controlled corporation	45,936,000	5.49%
Unique Element Corp. ⁽³⁾	Interest of a controlled corporation	45,936,000	5.49%

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 0.74% of the issued share capital 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 held by Tong Ren Tang Technologies and Tong Ren Tang Ltd., respectively.
- (3) According to the disclosure forms filed by Greenwoods Asset Management Holdings Limited, Greenwoods Asset Management Limited, Jiang Jinzhi and Unique Element Corp. on 8 December 2016, the following interests in shares of the Company were held or deemed to be interested by Greenwoods Asset Management Holdings Limited, Greenwoods Asset Management Limited, Jiang Jinzhi and Unique Element Corp.:

Long Position in shares

Name of controlled corporation	Name of controlling shareholder	Percentage of control (%)	Direct interest (Yes/No)	Number of share
Unique Element Corp.	Jiang Jinzhi	100	No	45,963,000
Greenwoods Asset Management Holdings Limited	Unique Element Corp.	81	No	45,963,000
Greenwoods Asset Management Limited	Greenwoods Asset Management Holdings Limited	100	No	45,963,000
Golden China Master Fund	Jiang Jinzhi	100	Yes	7,685,000
Greenwoods Asset Management Limited	Greenwoods Asset Management Holdings Limited	100	No	14,004,000
Greenwoods China Alpha Master Fund	Greenwoods Asset Management Limited	100	Yes	19,545,000
Golden China Plus Master Fund	Jiang Jinzhi	100	Yes	17,000,000
Greenwoods China Healthcare Master Fund	Greenwoods Asset Management Limited	100	Yes	3,002,000

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 Divisions 2 and 3 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 2016, 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, each of Tong Ren Tang Ltd., Tong Ren Tang Technologies and Tong Ren Tang Holdings (collectively 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 Hong Kong, Macao and 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 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 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 of the Company:

- (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 11.04 of the GEM 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 2016, 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

Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context (including the date) in which it appears.

The following is the qualification of Somerley who has given its opinions or advices which are 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 as defined under the SFO.

9. EXPERT'S INTERESTS

As at the Latest Practicable Date, Somerley had no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of any member of the Group.

As at the Latest Practicable Date, Somerley was not interested, directly or indirectly, in any assets which had since 31 December 2016, 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.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the registered office of the Company in Hong Kong at Room 1405–1409, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and the date of the EGM:

- (a) the letter from Somerley as set out in this circular;
- (b) the written consent of Somerley referred to in this Appendix; and
- (c) the New Exclusive Distributorship Framework Agreements.

NOTICE OF EGM



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)

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 2:00 p.m. on Friday, 1 December 2017 at Room 1405–1409, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions:

As Ordinary Resolutions

1. “**THAT**, the exclusive distributorship framework agreement entered into by the Company with Tong Ren Tang Technologies Co. Ltd. on 8 November 2017 (the “**TRT Tech Exclusive Distributorship Framework Agreement**”), and the new annual caps for the three years ending 31 December 2020 for the continuing connected transactions of the Company contemplated under the TRT Tech Exclusive Distributorship Framework Agreement 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 may consider necessary or desirable for the purpose of giving effect to the terms of the TRT Tech Exclusive Distributorship Framework Agreement and completing the transactions contemplated thereunder with such changes as he may consider necessary, desirable or expedient.”
2. “**THAT**, the exclusive distributorship framework agreement entered into by the Company with Beijing Tong Ren Tang Company Limited on 8 November 2017 (the “**TRT Ltd. Exclusive Distributorship Framework Agreement**”), and the new annual caps for the three years ending 31 December 2020 for the continuing connected transactions of the Company contemplated under the TRT Ltd. Exclusive Distributorship Framework Agreement 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 may consider

NOTICE OF EGM

necessary or desirable for the purpose of giving effect to the terms of the TRT Ltd. Exclusive Distributorship Framework Agreement and completing the transactions contemplated thereunder with such changes as he may consider necessary, desirable or expedient.”

By order of the board of directors
Beijing Tong Ren Tang Chinese Medicine Company Limited
Mei Qun
Chairman

Hong Kong, 15 November 2017

As at the date of this notice, the Board comprises the non-executive director, namely Mr. Mei Qun; the executive directors, namely Ms. Ding Yong Ling, Mr. Zhang Huan Ping and Ms. Lin Man; and the independent non-executive directors, namely Mr. Tsang Yok Sing, Jasper, Mr. Zhao Zhong Zhen and Mr. Chan Ngai Chi.

This notice, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited 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 notice 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 notice misleading.

This notice will remain on the “Latest Company Announcement” page of the GEM website at www.hkgem.com for at least seven days from the date of its posting and on the Company’s website at www.tongrentangcm.com.

Notes:

1. The register of members of the Company will be closed from Tuesday, 28 November 2017 to Friday, 1 December 2017, both days inclusive, during which period no transfer of shares of the Company (“Shares”) will be registered. In order to be entitled to attend and vote at the EGM, all transfers of Shares accompanied by the relevant share certificates and properly completed and signed transfer forms must be lodged with the share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Monday, 27 November 2017.
2. Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member of the Company shall not appoint more than one proxy to attend on the same occasion, except where the member of the Company is a clearing house (or its nominee(s)).
3. A form of proxy for the meeting is enclosed. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a certified copy of such power or authority, shall be deposited at 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, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the meeting.