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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 on Main Board: 3613)**

**(Stock Code on GEM: 8138)**

**TRANSFER OF LISTING  
FROM GEM  
TO THE MAIN BOARD OF  
THE STOCK EXCHANGE OF HONG KONG LIMITED**

On 1 February 2018, an application was made by the Company to the Stock Exchange for the listing of, and permission to deal in 837,100,000 Shares in issue on the Main Board by way of the Transfer of Listing pursuant to Chapter 9A of the Main Board Listing Rules.

The approval-in-principle for the Transfer of Listing was granted by the Listing Committee on 11 May 2018 for the Shares to be listed on the Main Board and to be de-listed from GEM. Immediately prior to the listing of the Shares on the Main Board, the listing of the Shares on GEM will be withdrawn. The last day of dealings in the Shares on GEM (Stock Code on GEM: 8138) will be 28 May 2018. It is expected that dealings in the Shares on the Main Board (Stock Code on Main Board: 3613) will commence at 9:00 a.m. on 29 May 2018.

As at the date of this announcement, all the applicable pre-conditions for the Transfer of Listing as set out in the Main Board Listing Rules have been fulfilled in relation to the Company and the Shares.

The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for trading, settlement and registration purposes and will not involve any transfer or exchange of the existing share certificates. No change is proposed to be made to the share certificate, the English and Chinese stock short names of the Company, the board lot size, the trading currency of the Shares and the share registrar and transfer office of the Company following the Transfer of Listing.

Reference is made to the announcement issued by the Company dated 1 February 2018, in relation to the formal application submitted to the Stock Exchange for the Transfer of Listing pursuant to Chapter 9A of the Main Board Listing Rules.

## **TRANSFER OF LISTING OF THE SHARES FROM GEM TO THE MAIN BOARD**

On 1 February 2018, an application was made by the Company to the Stock Exchange for the listing of, and permission to deal in 837,100,000 Shares in issue on the Main Board by way of the Transfer of Listing pursuant to Chapter 9A of the Main Board Listing Rules.

The Board is pleased to announce that the approval-in-principle for the Transfer of Listing was granted by the Listing Committee on 11 May 2018 for the Shares to be listed on the Main Board and to be de-listed from GEM. Immediately prior to the listing of the Shares on the Main Board, the listing of the Shares on GEM will be withdrawn. The last day of dealings in the Shares on GEM (Stock Code on GEM: 8138) will be 28 May 2018. It is expected that dealings in the Shares on the Main Board (Stock Code on Main Board: 3613) will commence at 9:00 a.m. on 29 May 2018.

As at the date of this announcement, all the applicable pre-conditions for the Transfer of Listing as set out in the Main Board Listing Rules have been fulfilled in relation to the Company and the Shares.

### **REASONS FOR THE TRANSFER OF LISTING**

The Board believes that the Transfer of Listing will enhance the trading liquidity of the Shares and promote the Group's corporate image to public investors. The Board also considers that the listing of the Shares on the Main Board will be beneficial to the Group's future growth, financial flexibility and further business expansion, and allow the Company to gain a wider recognition among the public, institutional and retail investors.

As at the date of this announcement, the Board has no plans to change the nature of the business of the Group following the Transfer of Listing.

The Transfer of Listing will not involve the issue of any new Shares by the Company.

### **DEALINGS IN THE SHARES ON THE MAIN BOARD**

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 7 May 2013, the date on which the Shares were first listed on GEM. Subject to continued compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for trading, settlement and registration purposes. No transfer or exchange of the existing share certificates will be involved. No change is proposed to be made to the share certificate, the English and Chinese stock short names of the Company and the board lot size, which is 1,000 Shares each. The trading currency of the Shares will remain to be in Hong Kong dollars. The share registrar and transfer office of the Company will remain to be Computershare Hong Kong Investor Services Limited.

## **GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES**

Pursuant to Rule 9A.12 of the Main Board Listing Rules, the general mandates granted by the Shareholders at the annual general meeting of the Company held on 7 May 2018 to the Directors to allot, issue, and deal with further securities of the Company and to repurchase securities of the Company will continue to be valid and remain in effect upon the Transfer of Listing until the earliest of:

- (a) the conclusion of the next annual general meeting of the Company; or
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association, or any other applicable laws of Hong Kong, to be held; or
- (c) the passing of an ordinary resolution by the Shareholders in a general meeting, revoking or varying such authorities given to the Directors.

## **PUBLIC FLOAT**

The Directors confirm that not less than 25% of the total issued share capital of the Company is held by the public (as defined in the Main Board Listing Rules) as at the date of this announcement. Accordingly, the minimum 25% public float requirement has been maintained in compliance with Rule 8.08 of the Main Board Listing Rules.

As at the Latest Practicable Date, a total of 236,630,000 Shares were held by at least 579 public Shareholders, representing approximately 28.27% of the issued Shares of the Company, and the three largest public Shareholders in aggregate held 80,192,000 Shares, representing 9.58% of the issued Shares of the Company. The Company had at least a total of 583 Shareholders as at the Latest Practicable Date.

There are no outstanding options, warrants or similar rights or convertible equity securities issued by the Company, which will be transferred to the Main Board as at the date of this announcement.

## **CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS**

As at the date of this announcement, the Company is owned as to 38.05% and 33.62% by Tong Ren Tang Technologies and Tong Ren Tang Ltd., respectively. Tong Ren Tang Technologies is owned as to 46.85% and 0.74% by Tong Ren Tang Ltd. and Tong Ren Tang Holdings, respectively. Tong Ren Tang Ltd. is owned as to 52.45% by Tong Ren Tang Holdings. Hence, each of Tong Ren Tang Technologies, Tong Ren Tang Ltd. and Tong Ren Tang Holdings is considered as a Controlling Shareholder.

The Parent Group is principally engaged, among others, in the distribution of Chinese Medicine Products, including those manufactured by the Parent Group, in the PRC.

The Group is the primary overseas development platform of “Tong Ren Tang” brand and is engaged in manufacturing, retail and wholesale of Chinese medicine products and healthcare products and provision of Chinese medical consultation and treatments. Tong Ren Tang Ltd. and Tong Ren Tang Technologies, both being members of the Parent Group, appointed TRT International Natural-Pharm, a wholly-owned subsidiary of the Company, as their sole distributor for the sales of their “Tong Ren Tang” branded products in Hong Kong, Macao and markets outside of the PRC (the “**Non-PRC Markets**”) pursuant to the Exclusive Distributorship Framework Agreements. Our Group's business overview are set out in the below section headed “Business Overview”.

Save for the excluded business as referred to in the below section headed “Excluded Business”, the Group has been responsible for the promotion of the “Tong Ren Tang” branded products in Non-PRC Markets (except for Japan), the overall management and planning of all sales and related matters in these markets.

All of the overseas orders of Tong Ren Tang Ltd. Group and Tong Ren Tang Technologies Group (except for Japan) will be conducted through TRT International Natural-Pharm as the sole overseas distributor that directly purchases from Tong Ren Tang Ltd. Group and Tong Ren Tang Technologies Group and takes title of the products as the sole distributor and are responsible for the distribution of the products of Tong Ren Tang Ltd. Group and Tong Ren Tang Technologies Group in Non-PRC Markets (except for Japan). There is no minimum purchase commitment in the Exclusive Distributorship Framework Agreements. On the other hand, pursuant to the Exclusive Distributorship Framework Agreements, Tong Ren Tang Ltd. and Tong Ren Tang Technologies are responsible for the quality of the merchandise they sell to us, whereby we have the rights to return any products with quality problems. Tong Ren Tang Ltd. and Tong Ren Tang Technologies also assume responsibilities and indemnify us against claims for any product liabilities associated with their products.

## I. EXCLUDED BUSINESS

The Parent Group's interests in the companies in the below jurisdictions have not been injected into the Group.

### *Hong Kong*

The Parent Group has established a joint venture company in Hong Kong, namely TRT Hong Kong Medicine which is held as to 65% and 10% by two Independent Third Parties, respectively, which are independent from the Parent Group and as to 25% by the Parent Group. TRT Hong Kong Medicine is neither a subsidiary nor associated company of the Parent Group. The joint venture was established in 1990 for the purpose of developing and exploring the Hong Kong market for "Tong Ren Tang" branded products. TRT Hong Kong Medicine has its own management team and is operated independently of the Parent Group, except for the Brand Management Rights (as defined below) which it has entrusted to us. TRT Hong Kong Medicine purchases "Tong Ren Tang" branded products from us on market terms and is treated by us as a customer. Based on the above, the Directors are of the view that the Company's transactions with TRT Hong Kong Medicine are on normal commercial terms.

According to its latest audited financials available, the revenue of TRT Hong Kong Medicine were approximately HK\$458.4 million, HK\$520.6 million and HK\$575.5 million for the years ended 31 December 2014, 2015 and 2016 respectively; and the net profit of TRT Hong Kong Medicine were approximately HK\$20.6 million, HK\$25.9 million and HK\$31.6 million, for the years ended 31 December 2014, 2015 and 2016 respectively.

Tong Ren Tang Holdings obtained its equity interests in return for granting a non-exclusive licence of the "Tong Ren Tang" brand name to TRT Hong Kong Medicine under a joint venture agreement (renewed in 2013 as a cooperation framework agreement) for sales and marketing of "Tong Ren Tang" branded products in Hong Kong at nil consideration. TRT Hong Kong Medicine is principally engaged in the retail of Chinese Medicine Products (including without limitation, our "Tong Ren Tang" branded products) under the "Tong Ren Tang" brand name in Hong Kong.

The Parent Group has undertaken not to extend the cooperation framework agreement upon its expiry on 15 April 2023. The shareholding of the Parent Group in TRT Hong Kong Medicine is a minority stake and it did not participate in the management of TRT Hong Kong Medicine. The Parent Group has no representative in the board of directors of TRT Hong Kong Medicine. Under the terms of the cooperation framework agreement, TRT Hong Kong Medicine needs the consent of the Parent Group in the opening of new retail outlets, introduction of new products (whether they are "Tong Ren Tang" branded products or not) and contents of their promotional materials (collectively the "**Brand Management Rights**"). Pursuant to the cooperation framework agreement, the Parent Group has entrusted the Brand Management Rights in respect of TRT Hong Kong Medicine and TRT (UK) on an exclusive basis to the Company during the subsistence of the cooperation framework agreement and for so long as the Parent Group directly or indirectly controls not less than 51% of the issued share capital of the Company. Save for the aforesaid,

there are no other restrictions on the Group's exercise of the Brand Management Rights nor is there any reserve power of Tong Ren Tang Holdings in respect of its entrustment of the Brand Management Rights pursuant to the cooperation framework agreements. Accordingly, the Group's role and responsibility under the Brand Management Rights are to consider any proposed introduction of new products, addition of retail outlets and marketing materials from TRT Hong Kong Medicine and give our consent if we find appropriate. The Company does not receive any fees from this arrangement as the purpose of the arrangement is to enable the Company to have the ability to manage the competition with TRT Hong Kong Medicine and TRT (UK). We believe these terms help us safeguard the "Tong Ren Tang" brand.

As TRT Hong Kong Medicine commenced retail sales of Chinese Medicine Products in Hong Kong under the "Tong Ren Tang" brand much earlier than the Company, it has a larger number of retail outlets. Our retail outlets and those of TRT Hong Kong Medicine have very similar decorations and the retail prices of "Tong Ren Tang" branded products are standardised. Consumers cannot distinguish between our stores and those of TRT Hong Kong Medicine. We compete with TRT Hong Kong Medicine for market share through the expansion of our retail network in Hong Kong. However, the Company benefits from sales of "Tong Ren Tang" branded products by TRT Hong Kong Medicine directly, where the Group sells "Tong Ren Tang" branded products to TRT Hong Kong Medicine.

The Parent Group's interests in TRT Hong Kong Medicine have not been injected into the Group because (a) the Parent Group has not yet been able to obtain consent from its joint venture partners to transfer its interest in TRT Hong Kong Medicine; (b) the Parent Group's interests in TRT Hong Kong Medicine are minority interests and the Parent Group is not involved in the management of these companies; (c) TRT Hong Kong Medicine is controlled and managed by an Independent Third Party; and (d) the Group is able to manage the competition with it under the Brand Management Rights entrusted to the Company.

### ***United Kingdom***

The Parent Group has established a joint venture company, namely TRT (UK), in the U.K. which is held as to 65% and 10% by two Independent Third Parties, respectively, both being the same parties to TRT Hong Kong Medicine mentioned above, and as to 25% by the Parent Group. TRT (UK) is neither a subsidiary nor associated company of the Parent Group. TRT (UK) was established in 1993 for the purpose of developing and exploring the U.K. market for "Tong Ren Tang" branded products. TRT (UK) has its own management team and is operated independently of the Parent Group, except for the Brand Management Rights which the Parent Group has entrusted to us. The Parent Group has no representative in the board of directors of TRT (UK).

According to its latest audited financials available, the revenue of TRT (UK) were approximately HK\$8.3 million, HK\$7.3 million and HK\$5.4 million for the years ended 31 December 2014, 2015 and 2016 respectively; and the net loss of TRT (UK) were approximately HK\$2.3 million, HK\$1.8 million and HK\$3.6 million for the years ended 31 December 2014, 2015 and 2016 respectively.

Tong Ren Tang Holdings obtained its equity interests in return for granting a non-exclusive licence of the "Tong Ren Tang" brand name to TRT (UK) under a joint venture agreement for sales and marketing of "Tong Ren Tang" branded products in the U.K. at nil consideration. TRT (UK) is principally engaged in the retail of Chinese Medicine Products in the U.K. The Parent Group has undertaken not to extend the joint venture agreement upon its expiry on 15 April 2023. As at the Latest Practicable Date, to the best knowledge and belief of the Directors, TRT (UK) was involved in retail sales in the U.K. and is currently operating one store in London, the U.K. The shareholding of the Parent Group in TRT (UK) is a minority stake and it does not own the controlling rights in nor participate in the management of TRT (UK). As at the Latest Practicable Date, the Group has established one retail outlet in Leeds, the U.K. The Group does not be in direct competition with TRT (UK) as our retail outlet is established in different city from the retail outlet of TRT (UK).

The Parent Group's interests in TRT (UK) have not been injected into the Group because (a) the Parent Group has not yet been able to obtain consent from its joint venture partners to transfer its interest in TRT (UK); (b) the Parent Group's interests in TRT (UK) are minority interests and the Parent Group is not involved in the management of TRT (UK); and (c) the Group is able to manage the competition with it under the Brand Management Rights entrusted to the Company.

### *Taiwan*

The Parent Group has an approximately 53% interest in TRT (Taiwan), a Taiwanese company established with Independent Third Parties, which are independent from the Parent Group. TRT (Taiwan) was established in 2003 as a joint venture until 15 July 2018 for the purpose of developing and exploring the Taiwan market for "Tong Ren Tang" branded products. The Parent Group has granted a non-exclusive licence of the "Tong Ren Tang" trademark to TRT (Taiwan) until 15 July 2018. The Parent Group has the majority of representatives in the board of directors of TRT (Taiwan). As at the Latest Practicable Date, to the best knowledge and belief of the Directors, TRT (Taiwan) operated one retail outlet under the "Tong Ren Tang" brand in Taiwan principally selling Chinese herbs, food and beverage products under the "Tong Ren Tang" brand manufactured by sub-contractors in Taiwan and Healthcare Products. Upon the expiry of the joint venture agreement in July 2018, the Parent Group does not intend to extend the joint venture agreement and the licence of the "Tong Ren Tang" trademark in respect of TRT (Taiwan).

According to its latest audited financials available, the revenue of TRT (Taiwan) were approximately HK\$7.2 million, HK\$13.1 million and HK\$19.0 million for the years ended 31 December 2014, 2015 and 2016 respectively; and the net profit/loss of TRT (Taiwan) were approximately HK\$2.8 million (net loss), HK\$1.4 million (net profit) and HK0.4 million (net loss) for the years ended 31 December 2014, 2015 and 2016, respectively.

The Parent Group's interest in TRT (Taiwan) has not been injected into the Group because (a) the Parent Group has not yet been able to obtain consent from the joint venture partners to transfer its interest in TRT (Taiwan); and (b) the Group has no plans to expand its distribution operations into Taiwan under the current political environment. For the avoidance of doubt, we are not excluded from establishing business in this jurisdiction. We have no retail outlet in Taiwan currently and accordingly we do not compete with TRT (Taiwan).

### *Japan*

The Parent Group has entered into agreements to manufacture (i) two Chinese Medicines and processed Chinese herbs for an Independent Third Party in Japan ("**Japanese Party A**"); and (ii) 27 Chinese Medicines for another Independent Third Party in Japan ("**Japanese Party B**"), pursuant to the formulae or preparation processes, as relevant, and the quality control process provided by these parties. The products are solely distributed by these Japanese parties and the Parent Group is only engaged as a manufacturer and receives manufacturing revenue for these products. However, the products supplied to Japanese Party A are sold by it citing the "Tong Ren Tang" brand name and trademark on the packaging together with its brand name. The Parent Group has no representation in the board of directors of these companies. As these Japanese companies are the respective owner of these relevant products, they distribute these products on their own accord and not as distributors of the Parent Group. These parties will continue to engage the Parent Group to manufacture products. We have not been informed the business size of these companies as we have not yet obtained consent to disclosure of such information. As we do not have distribution operations in Japan currently and the Parent Group has undertaken not to establish Chinese Medicine Products distribution business in Japan, we do not compete with these Japanese companies. In addition, the Group currently does not intend to engage in the distribution of Chinese Medicine Products in Japan.

Based on the information provided by the Parent Group, its sales to Japanese Party A and Japanese Party B were approximately HK\$8.6 million, HK\$17.0 million and HK\$10.5 million, for the years ended 31 December 2015, 2016 and 2017 respectively.

The supply of products to these companies in Japan has not been injected into the Group because (a) the Independent Third Parties in Japan have chosen the Parent Group as the manufacturer of their products; (b) this is in substance an OEM manufacturing arrangement where the formulae and quality control processes are provided by these Japanese companies and the Parent Group in effect receives a manufacturing fee; and (c) the Group has no relevant manufacturing capability.

### ***Right of first refusal***

The Parent Group has granted the Company rights of first refusal to acquire its interest in TRT Hong Kong Medicine, TRT (UK) and TRT (Taiwan) on terms which are not less favorable than the terms it wishes to sell to other parties.

## **II. DELINEATION OF BUSINESS OPERATIONS**

The Directors believe that the Group has a clear business delineation from the Parent Group. Set out below is further analysis of business delineation between the Group and the Parent Group as follows:

- *Deed of Non-Competition made by the Parent Group:* Pursuant to the Deed of Non-Competition, each of Tong Ren Tang Ltd., Tong Ren Tang Technologies and Tong Ren Tang Holdings has undertaken (i) not to engage in the research and development, manufacture and/or sales of any products containing ganoderma lucidum or ganoderma lucidum spores as raw materials in the Non-PRC Markets; (ii) not to sell Angong Niuhuang Wan (安宮牛黃丸) manufactured by the Parent Group in Non-PRC Markets; and (iii) to appoint TRT International Natural-Pharm as sole distributor of “Tong Ren Tang” branded products in Non-PRC Markets except for Japan. For further details of the Deed of Non-competition, please refer to the section headed “Deed of Non-competition with the Parent Group” below. Save for the interest of the Parent Group in the sale of Chinese Medicine Products through or with the Excluded Business, the Group is the only member of the Beijing Tong Ren Tang Group which communicates with purchasers of “Tong Ren Tang” branded products in Non-PRC Markets (except for Japan). The Parent Group does not promote its products to customers in Non-PRC Markets. Accordingly, the Group is in control of the distribution of all “Tong Ren Tang” branded products in Non-PRC Markets (except for Japan) and there should not be any conflict of interest with the Parent Group that will affect the interest of the independent Shareholders from this aspect.
- *Non-Competition in Non-PRC Markets with Parent Group:* The business delineation between the Company and the Parent Group is clear. Being the primary overseas distribution platform for Beijing Tong Ren Tang Group, the Company manages the overseas sales network of all “Tong Ren Tang” branded products. As the primary overseas business development platform of “Tong Ren Tang” brand, the Group also (i) manages substantially all of the overseas distribution network of all products of “Tong Ren Tang” brand; (ii) is responsible for the coordination of the product registration and marketing of the products of “Tong Ren Tang” brand in Non-PRC Markets; and (iii) has sole discretion to formulate and implement further expansion plan for extending its reach to Non-PRC Markets as the Parent Group has appointed the Group to distribute its products in Non-PRC Markets.

- *Non-Competition in PRC Market with Parent Group:*
  - Although the PRC Distribution Framework Agreement entered into between the Company and Tong Ren Tang Holdings applies to all Owned Products, the Group's product sales to the Parent Group in the PRC market refers to the distribution of GLSPC only. For the years ended 31 December 2015, 2016 and 2017, 12.9%, 14.0% and 15.6% of our revenue are derived from the sales of our Owned Products (GLSPC only) to the Parent Group.
  - Before November 2012, the Group had a PRC distribution operation selling the Owned Products (mostly GLSPC). For the purpose of establishing and focusing the Group's market position as the primary overseas development platform of Beijing Tong Ren Tang, we had terminated the PRC distribution operation from November 2012 and the Group's business development has been focusing on the Non-PRC markets since then. Since the termination of selling GLSPC in the PRC market, the Company had received a lot of enquiries and suggestions from the Shareholders, investors and customers requesting the management of the Company and the Parent Group to seriously consider to make GLSPC available for sale in the PRC market, taking into account the substantial demand for GLSPC in the PRC and the potential benefits and synergies to be brought to the Group and the Tong Ren Tang Group as a whole. In response to the continuous request from the Shareholders, the Board decided to enter into the PRC Distribution Framework Agreement to distribute GLSPC in the PRC market.
  - In addition, the Company also entered into distributorship agreements with other PRC distributors (Independent Third Parties) to distribute GLSPC, the terms of which are substantially the same as those under the PRC Distribution Framework Agreement. For the years ended 31 December 2015, 2016 and 2017, 0.6%, 0.7% and 1.2% of our revenue are derived from the sales of GLSPC to other PRC distributors. The Parent Group confirms that it only sells GLSPC in its own retail outlets, therefore there are no overlapping customers between the Group and the Parent Group in the PRC market.
  - Our Directors are of the view that the GLSPC's continuous availability for sale to the Parent Group would be in the interests of the Company, its Shareholders and the Parent Group as well as the consumers as a whole and there is no competition between our business dealings in the PRC market and those of the Parent Group in the same market, taking in account the following factors:
    - (i) the product establishment mechanism (產品立項機制) of Beijing Tong Ren Tang Group has avoided any potential competition of the Owned Products (including GLSPC) with the products of Parent Group. Specifically, the research, development or manufacture of any single product by any members of Beijing Tong Ren Tang Group need to obtain the approval from research and development department (科技質量部) and an expert committee (專家委員會) of Beijing Tong Ren Tang Group to ensure there is no product competition between members of Beijing Tong Ren Tang Group;
    - (ii) we have no heavy reliance on the product sales through the Parent Group's network to support our business operations and development during the Track Record Period and we also engaged other PRC distributors to distribute GLSPC to reduce the possible reliance;
    - (iii) our Owned Products are regarded as import healthcare products in the PRC and are solely developed and manufactured by the Group and none of the members of the Parent Group is engaged in the research, development or manufacture of our Owned Products; and



- (iv) as at the Latest Practicable Date, none of the members of the Parent Group was engaged in the research, development or manufacture of any Chinese Medicines containing ganoderma lucidum or ganoderma lucidum spore as raw material, and the Parent Group only have Chinese herbs containing ganoderma lucidum. Chinese Medicines refer to the products processed into a certain dosage specification by using Chinese herbs as raw material, according to prescribed prescription and preparation process, for the purpose of preventing and treating disease. Chinese herbs are raw materials that can be directly used for formulation or preparation of dosage. Therefore, GLSPC is a kind of Chinese Medicines containing ganoderma lucidum spore as raw material. Furthermore, ganoderma lucidum spores powder is the spore of ganoderma lucidum. Ganoderma lucidum spore is the seed ejected and released in the later stage of ganoderma development, only 5-8 microns in single diameter, and powder forms when spores getting together, known as ganoderma lucidum spore powder. The ganoderma lucidum spores powder being used as our GLSPC's raw material is created by low-temperature extraction technology.

### III. INDEPENDENCE FROM THE PARENT GROUP

#### A. MANAGEMENT OPERATIONAL, ADMINISTRATIVE AND FINANCIAL INDEPENDENCE

Furthermore, having considered the factors described below, we believe that the Group is capable of carrying on its business independently from the Parent Group.

##### 1. Management independence

Upon the Transfer of Listing, our Board comprises three executive Directors, namely (1) Ms. Ding Yong Ling, (2) Mr. Zhang Huan Ping and (3) Ms. Lin Man; one non-executive Director, namely (1) Mr. Mei Qun; and three independent non-executive Directors, namely (1) Mr. Tsang Yok Sing, Jasper, (2) Mr. Zhao Zhong Zhen and (3) Mr. Chan Ngai Chi. The overlapping of directorship and senior management among the Company, Tong Ren Tang Technologies, Tong Ren Tang Ltd. and Tong Ren Tang Holdings are set forth below:

<u>Name of Directors</u>	<u>The Company</u>	<u>Tong Ren Tang Technologies</u>	<u>Tong Ren Tang Ltd.</u>	<u>Tong Ren Tang Holdings</u>
Mr. Mei Qun	Chairman and non-executive Director	-	-	Chairman
Ms. Ding Yong Ling	Executive Director	-	-	Director and Deputy general manager <sup>(Note)</sup>

*Note:*

*Although Ms. Ding Yong Ling is a director and a deputy general manager of Tong Ren Tang Holdings, her main duty is in the management of the Group.*

Only two out of seven Directors (i.e. Mr. Mei Qun and Ms. Ding Yong Ling) and only one out of three executive Directors (i.e. Ms. Ding Yong Ling) will have overlapping roles in the Parent Group.

Notwithstanding the foregoing, we are of the view that the Board of Directors and the senior management of the Group will operate and function independently from the directors of the Parent Group for the following reasons:

- (a) Mr. Mei Qun, being a non-executive Director of the Company, will not participate in the day-to-day operations of the Group.
- (b) Our daily operations are managed by the three executive Directors, Ms. Ding Yong Ling, Mr. Zhang Huan Ping and Ms. Lin Man. Although Ms. Ding Yong Ling will continue to be a director and a deputy general manager of Tong Ren Tang Holdings, she will devote most of her time to the day-to-day operations and the management of the Group.
- (c) The management of the Group will also be supported by the senior management team who will carry on the business independently from the Parent Group. Save as disclosed above, there will be no overlap of senior management between the Group and the Parent Group.

## **2. Operational independence**

We believe that the Group operates independently from the Parent Group.

The Group's distribution business is operated independently from that of the Parent Group and the Group has its own independent team overseeing its day-to-day operations.

The manufacturing facilities of the Parent Group and the Company are clearly delineated and separately located and the Company has its own functional teams such as merchandising, manufacturing, quality control, administration, finance and human resources which have been operating and are expected to continue to operate separately.

The Group has had, and will continue to have, certain transactions with the Parent Group as follows:

- acting as the sole distributor of Tong Ren Tang Ltd. Group and Tong Ren Tang Technologies Group in Non-PRC Markets (except for products sold to two Japanese companies) and purchase products from them;
- sourcing of Angong Niuhuang Wan Powder from the Parent Group; and
- the Parent Group acting as a non-exclusive distributor of the Group in the PRC markets with respect to the products to be researched, developed and manufactured by the Group (excluding Angong Niuhuang Wan)

The details of the continuing connected transactions between the Group and the Parent Group are set out in the section below headed "Continuing Connected Transactions with the Parent Group".

Based on the considerations below, we believe the transactions between the Group and the Parent Group will not affect the independence of the Group and hence the suitability of the Transfer of Listing.

**(i) Overseas Distribution of Parent Group’s Products is not the Main Revenue Source of the Group**

- “Tong Ren Tang” is one of the most renowned brands for Chinese Medicine Products. Striving to become the primary platform for promoting Chinese Medicine Products overseas and as a company engaging in overseas distribution of Chinese Medicine Products, we have to provide a broad range of products and it is inevitable that the Group sells “Tong Ren Tang” branded products through the network of the Group;
- The Group procure “Tong Ren Tang” branded products from Tong Ren Tang Ltd. Group or the Tong Ren Tang Technologies Group under the Exclusive Distributorship Framework Agreements for the purpose of the distribution of such products in the Non-PRC Markets. 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 both the Parent Group and the Group. For the years ended 31 December 2015, 2016 and 2017, the purchase from the Parent Group under the Exclusive Distributorship Framework Agreements represents 22.9%, 29.9% and 37.6% of total purchase of the Group respectively. All the arrangements between the Parent Group and the Group with respect to the sales and purchases of products and/or services have been and will be based on reasonable commercial terms; and
- The Parent Group’s products do not account for a majority of our overseas distribution product offerings. Benefiting from the continuous research, development, commercialisation and improvement of our Owned Products, the revenue derived from the sales of our Owned Products contribute to the majority of our income during the Track Record Period. The Group is also engaged in the wholesale and retail of Chinese Medicine Products under other brands and Chinese herbs as well as the provision of Chinese Medical Consultation. In terms of proportion, sales of the Parent Group’s products accounted for approximately 10.2%, 11.9% and 13.2% of the revenue of the Group for the years ended 31 December 2015, 2016 and 2017, respectively.

**(ii) Raw Materials Procurement from the Parent Group is not the Indication of Reliance**

- Natural musk, being the major ingredient in manufacturing Angong Niu Huang Wan Powder which in turn is the principal raw material in manufacturing Angong Niu Huang Wan, is a high regulated substance in many countries and the Parent Group is licensed to process natural musk for the production of Angong Niu Huang Wan in the PRC. In addition, there is no other supplier providing Angong Niu Huang Wan Powder with natural musk in the PRC market. The quality of Angong Niu Huang Powder produced by the Parent Group is assured. Therefore, the continuous purchase of Angong Niu Huang Wan Powder from the Tong Ren Tang Ltd. Group can make sure the Group's continuous production quality and safety of Angong Niu Huang Wan and satisfy its business expansion objectives. Since the purchase of all raw materials (including Angong Niu Huang Wan Powder) from the Parent Group represented only 4.5%, 6.4% and 5.0% of the total purchases of the Group for the years ended 31 December 2015, 2016 and 2017, respectively, we are of the view that the sourcing of Angong Niu Huang Wan Powder from the Parent Group does not indicate that the Company places a heavy reliance on the Parent Group in terms of sourcing; and

- The Parent Group is the only supplier of Angong Niuhuang Wan Powder with natural musk and “Tong Ren Tang” branded products, therefore the Company did not involve any other counterparty risks during the Track Record Period.

**(iii) Revenue generated from the Parent Group is not Significant**

- The Group’s revenue generated from the Group’s product sales to the Parent Group for the years ended 31 December 2015, 2016 and 2017 accounted for 12.9%, 14.0% and 15.6% of the total revenue of the Group, respectively. The revenue generated from the Group’s product sales to the Parent Group during the Track Record Period, being primarily the sales of GLSPC, is not significant.

The above transactions with the Parent Group have been conducted on normal commercial terms arrived at based on arm’s length negotiation and the profitability of the Group on such transactions with the Parent Group does not differ materially from those with independent customers and suppliers that can enter into the same transactions.

In view of the aforesaid, the Company is of the view that the business of the Group is operated independently from that of the Parent Group.

**3. Administrative independence**

The Directors consider that the Group can function independently from the Parent Group. To ensure the independence of the operation and business of the Group from the Parent Group, the Group has its own merchandising (including procurement, sales, marketing and business development and sales supporting), production and logistics (including production and shipping), quality assurance and control, administration, finance and human resources and other systems and teams which have been operating and are expected to continue to operate separately.

**4. Financial independence**

The Group has its own financial management and relevant personnel who are independent from the Parent Group. The Group can independently access third party financing and bank borrowings. The Group also has its own settlement and treasury functions. No settlement or treasury functions are currently carried out by the Parent Group for and on behalf of the Group.

Save as any trade balances due to or from the Parent Group, as at the Latest Practicable Date, there was no outstanding balance due to or from the Parent Group or any corporate guarantee provided by the Parent Group for the indebtedness of the Group.

**IV. CONTINUING CONNECTED TRANSACTIONS WITH THE PARENT GROUP**

As at the date of this announcement, there are four ongoing continuing connected transactions between the Group and the Parent Group as set out below:

**(1) PRC Distribution Framework Agreement**

On 3 October 2013, the Company entered into the PRC Distribution Framework Agreement with Tong Ren Tang Holdings (the “**PRC Distribution Framework Agreement**”), pursuant to which the Tong Ren Tang Group was act as a non-exclusive distributor of the Group and would purchase the Owned Products from the Group and then distribute the same to retailers or end-users in the PRC for a period from 1 January 2014 to 31 December 2016. The annual caps (after revision

through a supplemental agreement dated 10 April 2014) for the transactions contemplated under the PRC Distribution Framework Agreement for the years ended 31 December 2014, 2015 and 2016 are HK\$185,000,000 (exclusive of value-added tax in the PRC), HK\$220,000,000 (exclusive of value-added tax in the PRC) and HK\$260,000,000 (exclusive of value-added tax in the PRC), respectively.

On 14 December 2016, the Company entered into the new PRC Distribution Framework Agreement with Tong Ren Tang Holdings for renewal of the continuing connected transactions thereunder for the period from 1 January 2017 to 31 December 2019. The annual caps (exclusive of value-added tax in the PRC) in respect of the transactions under the new PRC Distribution Framework Agreement for the year ended 31 December 2017 and two years ending 31 December 2019 are HK\$200,000,000, HK\$230,000,000 and HK\$270,000,000, respectively.

During the Track Record Period, the actual transaction amount under the above agreements was HK\$124,946,000, HK\$151,780,000 and HK\$197,304,000, respectively.

As one or more of the applicable percentage ratios (other than the profits ratio) of the annual caps exceed 5% and the annual caps is more than HK\$10,000,000, the above PRC Distribution 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.

**(2) Procurement of Angong Niu Huang Wan Powder from Tong Ren Tang Ltd.**

On 30 September 2012, the Company entered into a Angong Niu Huang Wan Powder master purchase agreement with Tong Ren Tang Ltd. (the “**Angong Niu Huang Wan Powder Master Purchase Agreement**”) whereby the Company agreed to purchase and Tong Ren Tang Ltd. agreed to sell Angong Niu Huang Wan Powder, being the raw materials for production of Angong Niu Huang Wan, for the period from 1 January 2013 to 31 December 2015. The annual caps in respect of the transactions under the Angong Niu Huang Powder Master Purchase Agreement for the years ended 31 December 2013, 2014 and 2015 are HK\$10,000,000, HK\$12,000,000 and HK\$13,000,000, respectively.

On 28 October 2015, the Company entered into a new Angong Niu Huang Wan Powder Master Purchase Agreement with Tong Ren Tang Ltd. to renew the transaction for the period from 1 January 2016 to 31 December 2018. The annual caps (after revision through a supplemental agreement dated 8 August 2016) in respect of the transactions under the new Angong Niu Huang Wan Powder Master Purchase Agreement for the two years ended 31 December 2017 and the year ending 31 December 2018 are HK\$17,400,000, HK\$23,200,000 and HK\$26,500,000, respectively.

During the Track Record Period, the actual transaction amount under the above agreements was HK\$10,656,000, HK\$15,525,000 and HK\$15,892,000, respectively.

As one or more of the applicable percentage ratios (other than the profits ratio) of the annual caps exceed 0.1% but less than 5%, the transactions contemplated under the above agreements are subject to reporting, announcement and annual review requirements but exempt from the independent shareholders' approval requirements under the GEM Listing Rules.

**(3) Exclusive Distributorship Framework Agreements with Tong Ren Tang Technologies and Tong Ren Tang Ltd.**

On 29 October 2012, the Company entered into an exclusive distributorship framework agreement (the “**Exclusive Distributorship Framework Agreements**”) with each of Tong Ren Tang Technologies and Tong Ren Tang Ltd. whereby TRT International Natural-Pharm, a wholly-

owned subsidiary of the Company, was appointed by each of Tong Ren Tang Technologies and Tong Ren Tang Ltd. as the sole distributor of “Tong Ren Tang” branded products of each of Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group in Non-PRC Markets and we purchased “Tong Ren Tang” branded products from Tong Ren Tang Technologies Group and Tong Ren Tang Ltd. Group for a term from 1 November 2012 to 31 December 2014.

On 28 October 2014, the Company entered into the new Exclusive Distributorship Framework Agreements with each of Tong Ren Tang Technologies and Tong Ren Tang Ltd. to renew the transactions for the period from 1 January 2015 to 31 December 2017. The annual caps in respect of the transactions under the new Exclusive Distributorship Framework Agreements for the years ended 31 December 2015, 2016 and 2017 are HK\$90,300,000, HK\$106,400,000 and HK\$125,200,000, respectively.

During the Track Record Period, the actual transaction amount under the Exclusive Distributorship Framework Agreements was HK\$54,249,000, HK\$72,387,000 and HK\$119,572,000 respectively.

The Exclusive Distributorship Framework Agreements were renewed by the relevant parties on 8 November 2017 with a period from 1 January 2018 to 31 December 2020. The total annual caps (exclusive of value-added tax in the PRC) in respect of the transactions under the renewed Exclusive Distributorship Framework Agreements for the years ending 31 December 2018, 2019 and 2020 are HK\$146,000,000, HK\$191,000,000 and HK\$248,000,000, respectively.

As one or more of the applicable percentage ratios (other than the profits ratio) of the annual caps exceed 5% and the annual caps is more than HK\$10,000,000, the above 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.

#### **(4) Master Lease Framework Agreement**

On 25 January 2017, the Company and Tong Ren Tang Holdings entered into a master lease framework agreement (the “**Master Lease Framework Agreement**”) pursuant to which Tong Ren Tang Holdings has agreed to lease and procure other members of the Beijing 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 leases entered into between the members of Beijing Tong Ren Tang Group and the members of the Group with any member of Beijing Tong Ren Tang Group from time to time during the period from 1 January 2017 to 31 December 2019. The annual caps in respect of the transactions under the Master Lease Framework Agreement for the year ended 31 December 2017 and years ending 31 December 2018 and 2019 are HK\$6,200,000, HK\$6,900,000 and HK\$7,000,000 respectively.

During the year ended 31 December 2017, the actual rental under the Master Lease Framework Agreement was HK\$4,584,000.

As one or more of the applicable percentage ratios (other than the profits ratio) of the annual caps 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.

## V. “TONG REN TANG” TRADEMARKS LICENSING ARRANGEMENT

The Group uses the “Tong Ren Tang” brand name, which is owned by the Parent Group, in its business operations.

Pursuant to a trademark licence agreement and authorization letter dated 15 April 2013 (the “**Trademark Licence Agreement and Authorization Letter**”) between Tong Ren Tang Holdings and the Company, Tong Ren Tang Holdings licensed the use of “Tong Ren Tang” trademarks for the Company’s production as well as for the right to use the “Tong Ren Tang” trademarks outside of the PRC including but not limited to the right to sub-license the said trademarks subject to the terms of the Trademark Licence Agreement and Authorization Letter for a term commencing from 25 October 2012 to 13 May 2021. According to the Trademark Licence Agreement and Authorization Letter, the Company is not subject to any fee or charges for use of the trademark as long as Tong Ren Tang Holdings directly or indirectly controls not less than 51% equity interest of the Company. The trademark license and authorization will be automatically renewed on the same terms and conditions on a perpetual basis for terms of 10 years upon expiry on 13 May 2021.

The Trademark License Agreement and the Authorisation Letter shall be immediately terminated if Tong Ren Tang Holdings ceases to be the owner of the “Tong Ren Tang” trademark, and/or Tong Ren Tang Holdings directly or indirectly controls less than 51% equity interest of the Company. Furthermore, only with respect to the licensed use for the production operations and without prejudice to the other clauses of the Trademark License Agreement and Authorisation Letter, Tong Ren Tang Holdings have the rights to terminate the Trademark Licence Agreement and Authorisation Letter if we have caused damage to the “Tong Ren Tang” brand name as a result of any of the followings:

- variation of scope of use, or sub-license of the licensed “Tong Ren Tang” brand name without prior approval of Tong Ren Tang Holdings
- quality problems of our products
- violation of relevant drug laws and regulations leading to investigations by relevant authorities
- contravention of terms of the Trademark Licence Agreement and Authorisation Letter whereby the Company fails to remedy upon receiving written notice of Tong Ren Tang Holdings
- any other acts which damage the reputation of the licensed “Tong Ren Tang” brand name

On the other hand, pursuant to the Trademark License Agreement and Authorisation Letter, Tong Ren Tang Holdings is obliged for the protection of the “Tong Ren Tang” trademark and from time to time make appropriate trademark registration in order to ensure the rights of the Company in the use of the trademark overseas.

## VI. DEED OF NON-COMPETITION WITH THE PARENT GROUP

Each of the Controlling Shareholders entered into the Deed of Non-competition in favour of the Company, 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 sales of any products containing ganoderma lucidum or ganoderma lucidum spores as raw materials in 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 mentioned in the paragraph headed "Excluded Business - Japan" above; 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 Non-PRC Markets;
- (iv) engage in the distribution of any Chinese medicine products in Non-PRC Markets, except for
  - (1) TRT (Taiwan) until the expiration of such joint venture on 15 July 2018;
  - (2) TRT Hong Kong Medicine until the expiration of the relevant cooperation agreement on 15 April 2023;
  - (3) TRT (UK) until the expiration of the relevant cooperation agreement on 15 April 2023;
  - (4) a Filipino company engaged in the sales of Chinese Medicine Products under the “Tong Ren Tang” brand as franchised by Parent Group until the expiration of such franchising arrangement on 1 August 2014;
  - (5) selling products manufactured pursuant to formulae or preparation processes, as relevant, and quality control process provided by two independent third parties in Japan to these two parties; and
- (v) carry out any new overseas registration of Tong Ren Tang branded products, ((i) to (v) are collectively known as “**Restricted Business**”).

In relation to the item (iv)(4), the franchise arrangement has expired and was not renewed thereafter.

In addition, under the Deed of Non-competition, each of the Controlling Shareholders has also undertaken that if each of them and/or any of its associates is offered or becomes aware of any project or new business opportunity (the “**New Business Opportunity**”) that relates to the Restricted Business, whether directly or indirectly, it shall (i) promptly and in any event not later than seven (7) days notify the Company in writing of such opportunity and provide such information as is reasonably required by the Company in order to enable the Company to come to an informed assessment of such opportunity; and (ii) use its best endeavours to procure that such opportunity is offered to the Company on terms no less favourable than the terms on which such opportunity is offered to it and/or its associates. The Directors (including the independent non-executive Directors) will review the New Business Opportunity and decide whether to invest in the New Business Opportunity within thirty (30) business days of receipt of notice from Controlling Shareholders. Tong Ren Tang Holdings has also granted the Company rights of first refusal to acquire its interest in TRT Hong Kong Medicine, TRT (UK) and TRT (Taiwan) on terms which are not less favorable than the terms it wishes to sell to other parties.



Each of Tong Ren Tang Ltd. and Tong Ren Tang Technologies has also appointed Tong Ren Tang International Natural-Pharm as its sole distributor for their products in Non-PRC Markets (except for Japan) for so long as the Parent Group directly or indirectly controls not less than 30% of the issued share capital of the Company. Further, each of the Controlling Shareholders has undertaken to provide us (including our independent non-executive Directors) with all information necessary for our annual review and the enforcement of all undertakings, representations and warranties contained in the Deed of Non-competition and for us to consider whether to exercise our right of first refusal to acquire the New Business Opportunity and/or the Parent Group's equity interest in TRT Hong Kong Medicine, TRT (UK) and TRT (Taiwan).

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 Director with basis on the compliance with and enforcement of the terms of the Deed of Non-competition in its annual report.

In monitoring the competing business of the Parent Group (refer to Tong Ren Tang Holdings, Tong Ren Tang Ltd., Tong Ren Tang Technologies and their respective subsidiaries, other than the Group and their respective predecessors), an executive committee (the "**Competition Executive Committee**") comprising two disinterested Directors, namely Mr. Zhang Huan Ping and Ms. Lin Man, has been established with the following major responsibilities:

- (a) conduct quarterly inspection of the distribution channels of the Parent Group, including retail outlets and wholesale customers, to check whether any products containing ganoderma lucidum or ganoderma lucidum spores as raw materials (other than GLSPC manufactured by the Group) is sold in Non-PRC Markets; and
- (b) conduct quarterly communications with representatives of the Parent Group to confirm whether their research and development portfolio has any products which contain ganoderma lucidum or ganoderma lucidum spores as raw materials.

A supervisory committee (the "**Competition Supervisory Committee**"), comprising three independent non-executive Directors, namely, Mr. Tsang Yok Sing, Jasper (Chairman), Mr. Zhao Zhong Zhen and Mr. Chan Ngai Chi, has been established with the following major responsibilities:

- (a) meet quarterly and review the quarterly inspection record and daily communication records by the Competition Executive Committee (if applicable); and
- (b) report findings during its review of the records provided by the Competition Executive Committee to the Board which will be published in the Company's annual report.

During the Track Record Period, the Competition Executive Committee and the Competition Supervisory Committee has duly performed their function and the relevant confirmation has been included in the annual reports of the Company.

As at the Latest Practicable Date, to the best knowledge of the Competition Executive Committee, they are not aware of the distribution channels of the Parent Group selling any products containing ganoderma lucidum or ganoderma lucidum spores as raw materials (other than the GLSPC manufactured by the Group) in Non-PRC Markets.

Save as disclosed above, to the best interest of the Directors, as at the date of this announcement, none of the Controlling Shareholders or their respective associates has any interest in any business which competes or potentially competes, either directly or indirectly, with the business of the Group which would be required to be disclosed under Rule 9A.09(10) of the Main Board Listing Rules.

## **DIRECTOR'S INTERESTS IN COMPETING BUSINESS**

Save disclosed in this announcement, as at the date of this announcement, none of the Directors or their respective associates has any interest in any business which competes or potentially competes, either directly or indirectly, with the business of the Group which would be required to be disclosed under Rule 9A.09(10) of the Main Board Listing Rules.

## **REGULAR PUBLICATION OF RESULTS**

The Company does not intend to continue with the quarterly reporting of financial results after the listing of the Shares on the Main Board and will follow the relevant requirements under the Main Board Listing Rules as regards publication of its interim and annual results within 2 months and 3 months from the end of the relevant periods or financial year ends respectively. The Board is of the view that the investors and the Shareholders will continue to have access to relevant information on the Company pursuant to the reporting requirements under the Main Board Listing Rules.

## **COMPLIANCE WITH THE GEM LISTING RULES**

To the best knowledge of the Directors, the Group did not have any serious or potentially serious breach of or material non-compliance with the GEM Listing Rules during the Track Record Period and up to the date of this announcement.

## **BUSINESS OVERVIEW**

The principal activities of the Group are manufacturing, retail and wholesale of Chinese medicine products and healthcare products and provision of Chinese medical consultation and treatments. We see ourselves as a channel for promoting Chinese medicine culture and services in Non-PRC Markets and the primary overseas development platform of “Tong Ren Tang” brand. Over the years, we have established our business model and primarily engaged in the following business activities:

- **Retail:** As at the Latest Practicable Date, we had 82 retail outlets in 19 countries and regions. Our retail outlets are operated under the “Tong Ren Tang” brand. We have an internal decoration policy to promote a uniform “Tong Ren Tang” image. We offer various types of Chinese Medicine Products, including both “Tong Ren Tang” branded products as well as non-“Tong Ren Tang” branded products, in our retail outlets. Some retail outlets also provide ordinary food products, daily consumption products and skincare products. Our retail network principally adopts an integrated “consultation, products and services” model and aims to promote our expertise in these areas. As at the Latest Practicable Date, we had 27 retail outlets in Hong Kong, 6 retail outlets in Australia, 1 retail outlet in Brunei, 1 retail outlet in Cambodia, 8 retail outlets in Canada, 1 retail outlet in Czech Republic, 4 retail outlets in Macao, 3 retail outlets in Malaysia, 7 retail outlets in New Zealand, 2 retail outlets in Poland, 5 retail outlets in Singapore, 5 retail outlets in South Africa, 1 retail outlet in Switzerland, 1 retail outlet in Sweden, 1 retail outlet in Thailand, 1 retail outlet in the Netherlands, 2 retail outlets in United Arab Emirates, 1 retail outlet in the United Kingdom and 5 retail outlets in the United States.

- **Wholesale:** As at the Latest Practicable Date, we had wholesale operations in Hong Kong, the PRC, Macao, Australia, Singapore, South Korea, Indonesia, United States and Thailand in respect for various types of products, the vast majority of which were “Tong Ren Tang” branded products. Our wholesale customers include Tong Ren Tang Group, our Overseas Partners, third party local distributors, local drug stores and clinics.
- **Sole distribution:** TRT International Natural-Pharm, a wholly-owned subsidiary of the Company, has been appointed by Tong Ren Tang Ltd. and Tong Ren Tang Technologies as their sole distributor for the sales of their “Tong Ren Tang” branded products in Non-PRC Markets.
- **Manufacturing:** As at the Latest Practicable Date, we manufactured various products in Tai Po Industrial Estate, Hong Kong and sold our Owned Products through our own distribution network and to wholesale customers.

## Cost Structure

The cost of the Group’s business operations is mainly comprised of cost of sales, distribution and selling expenses and general administrative expenses.

During the Track Record Period, the cost of purchasing merchandise for retail operation and our overseas distribution operation was the largest component of our cost of sales. We offer a broad range of Chinese Medicine Products including Chinese Medicines, Healthcare Products, and Chinese herbs through our distribution channels. We purchase merchandise from the Parent Group and third party suppliers (which may include our Overseas Partners). The cost of purchasing raw materials for manufacturing of Angong Niu Huang Wan and GLSPC is the second largest component of our cost of sales. During the Track Record Period, rental expenses and employee benefit expenses was the largest and the second largest component of our distribution and selling expenses, respectively, and employee benefit expenses and rental expenses was the largest and the second largest component of our general and administrative expenses, respectively.

## Operating Performance

The table below sets forth a breakdown of our revenue by nature of business operations during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>(HK\$’000)</i>	<i>(HK\$’000)</i>	<i>(HK\$’000)</i>
Sales of products	935,218	1,044,886	1,217,907
Service income <sup>(1)</sup>	34,475	38,519	47,548
Royalty fee income <sup>(2)</sup>	784	875	539
<b>Total</b>	<b>970,477</b>	<b>1,084,280</b>	<b>1,265,994</b>

Note:

(1) Service income mainly represents provision of Chinese medical consultation and healthcare treatments in retail outlets.

(2) Royalty fee income is based on pre-determined rates on the total turnover of overseas entities for them to use the “Tong Ren Tang” brand name.

The table below sets forth a breakdown of our revenue by geographic areas during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Hong Kong	558,487	597,087	636,257
PRC	179,538	234,705	322,878
Macao	98,260	110,190	142,300
Australia	40,983	45,353	53,173
Canada	32,611	33,320	35,943
Singapore	23,540	23,945	23,969
New Zealand	14,967	17,023	19,627
Other countries	22,091	22,657	31,847
<b>Total</b>	<b><u>970,477</u></b>	<b><u>1,084,280</u></b>	<b><u>1,265,994</u></b>

The table below sets forth a breakdown of our gross profits by nature of business operations during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Sales of products	669,489	781,695	897,995
Service income	10,604	12,517	17,899
Royalty fee income	784	875	539
<b>Total</b>	<b><u>680,877</u></b>	<b><u>795,087</u></b>	<b><u>916,433</u></b>

## KEY COMPONENTS IN THE CONSOLIDATED INCOME STATEMENT OF THE GROUP

The table below sets forth the key items of the Group's consolidated income statement during the Track Record Period:

	Year ended 31 December		
	2015 <i>(HK\$'000)</i>	2016 <i>(HK\$'000)</i>	2017 <i>(HK\$'000)</i>
Revenue	970,477	1,084,280	1,265,994
Gross profit	680,877	795,087	916,433
Distribution and Selling Expenses	(141,930)	(161,901)	(193,517)
General and Administrative Expenses	(90,080)	(109,611)	(127,293)
Finance Income, net	8,534	7,870	13,324
Income tax expense	(82,036)	(92,390)	(105,454)
Profit for the Year	<u>374,578</u>	<u>439,880</u>	<u>505,512</u>
<b>Profit attributable to:</b>			
Owners of the Company	354,249	420,315	489,967
Non-controlling interests	<u>20,329</u>	<u>19,565</u>	<u>15,545</u>
	<u><b>374,578</b></u>	<u><b>439,880</b></u>	<u><b>505,512</b></u>

### Revenue

The Group's revenue reached HK\$1,266.0 million in 2017, representing an increase of 16.8% from 2016. The increase was mainly driven by the continuous demand for our Owned Products, the sales growth in the existing sales network and the expansion of the sales network.

The Group's revenue reached HK\$1,084.3 million in 2016, representing an increase of 11.7% from 2015. The increase was mainly driven by the continuous strong demand for our Owned Products, the sales growth in the existing sales network and the expansion of the sales network.

### Gross Profit

The Group's gross profit in 2017 increased by 15.3% to HK\$916.4 million. The gross profit margin slightly decreased from 73.3% to 72.4%, which was primarily due to the slight change in the product mix from 2016.

The Group's gross profit in 2016 increased by 16.8% to HK\$795.1 million. The gross profit margin increased from 70.2% to 73.3%, which was due to slight decrease of the cost of raw materials resulting from temporary depreciation of RMB, economic of scale arising from expansion of production and upward adjustment of product selling prices.

### Distribution and Selling Expenses

The Group's distribution and selling expenses in 2017 increased by 19.5% to HK\$193.5 million. Such increase was mainly attributable to (i) the increase of rental expenses and sales staff costs as the number of retail outlet increased, and (ii) the increase of advertising and promotion expenses as the Group's advertising

and promotion activities increased. Distribution and selling expenses as a percentage to revenue increased slightly from 14.9% in 2016 to 15.3% in 2017.

The Group's distribution and selling expenses in 2016 increased by 14.1% to HK\$161.9 million. Such increase was mainly attributable to (i) the increase of rental expenses and sales staff costs as the number of retail outlet increased in 2016, and (ii) the Group's advertising and promotion activities increased in 2016, which resulted in an increase in advertising and promotion expenses. Distribution and selling expenses as a percentage to revenue increased slightly from 14.6% in 2015 to 14.9% in 2016.

### **General and Administrative Expenses**

The Group's general and administrative expenses in 2017 increased by 16.1% to HK\$127.3 million. As the Group's business has continuously expanded, the number of subsidiaries and administrative and management personnel increased, which resulted in raising staff costs, rental expenses, depreciation of fixed assets, as well as other related administrative expenses. General and administrative expenses as a percentage to revenue maintained stably at 10.1%.

The Group's general and administrative expenses in 2016 increased by 21.7% to HK\$109.6 million. Such increase was mainly due to the continuous expansion of the Group's business and increase in the number of subsidiaries and increase in administrative and management personnel, which resulted in an increase in staff costs, rental expenses, depreciation of fixed assets, as well as other related administrative expenses. General and administrative expenses as a percentage to revenue increased slightly from 9.3% in 2015 to 10.1% in 2016.

### **Finance Income, net**

The Group's net finance income in 2017 increased by HK\$5.4 million to HK\$13.3 million. Such increase was mainly attributable to the increase in finance income as the average short-term bank deposit increased from 2016.

The Group's net finance income in 2016 decreased by HK\$0.7 million to HK\$7.9 million. Such decrease was mainly attributable to the decrease in finance income as the average short-term bank deposit interest rate was lower than those in 2015.

### **Income Tax Expense**

The Group's income tax expense in 2017 increased by 14.2% to HK\$105.5 million. Such increase was mainly due to an increase in taxable income in 2017. The weighted average applicable tax rate for 2017 has slightly increased from 16.9% for 2016 to 17.5%, which caused by the change in proportion of contribution of taxable profit.

The Group's income tax expense in 2016 increased by 12.6% to HK\$92.4 million. Such increase was mainly due to an increase in taxable income in 2016. The weighted average applicable tax rate for 2016 has slightly decreased from 17.1% for 2015 to 16.9%, which was caused by the change in proportion of contribution of taxable profit.

### **Profit for the Year**

The Group's profit in 2017 increased by 14.9% to HK\$505.5 million with a net profit margin of 39.9% for 2017.

The Group's profit in 2016 increased by 17.4% to HK\$439.9 million with a net profit margin of 40.6% for 2016.

## KEY COMPONENTS IN THE CONSOLIDATED BALANCE SHEET OF THE GROUP

The table below sets forth the key items of the Group's consolidated balance sheet during the Track Record Period:

	<b>As at 31 December</b>		
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>(HK\$ '000)</i>	<i>(HK\$ '000)</i>	<i>(HK\$ '000)</i>
<b>NON-CURRENT ASSETS</b>			
Leasehold land	17,094	16,551	16,008
Property, plant and equipment	262,430	256,012	263,555
Intangible assets	61,336	81,279	79,001
Investments accounted for using the equity method	23,081	19,810	20,766
Available-for-sale financial asset	-	13,313	15,318
Deposits paid for purchase of property, plant and equipment	334	1,221	1,988
Deferred income tax assets	8,520	9,990	9,132
<b>Total non-current assets</b>	<b>372,795</b>	<b>398,176</b>	<b>405,768</b>
<b>CURRENT ASSETS</b>			
Inventories	160,259	178,539	235,536
Trade receivables and other current assets	213,665	194,506	221,570
Short-term bank deposits	520,406	786,044	1,147,338
Cash and cash equivalents	759,860	797,557	750,443
<b>Total current assets</b>	<b>1,654,190</b>	<b>1,956,646</b>	<b>2,354,887</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	76,984	88,372	114,486
Current income tax liabilities	35,734	34,519	32,968
<b>Total current liabilities</b>	<b>112,718</b>	<b>122,891</b>	<b>147,454</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowing	561	556	605
Deferred income tax liabilities	4,791	4,138	4,419
<b>Total non-current liabilities</b>	<b>5,352</b>	<b>4,694</b>	<b>5,024</b>
<b>Net current assets</b>	<b>1,541,472</b>	<b>1,833,755</b>	<b>2,207,433</b>
<b>Net assets</b>	<b>1,908,915</b>	<b>2,227,237</b>	<b>2,608,177</b>
<b>EQUITY</b>			
Equity attributable to owners of the Company	1,815,708	2,122,541	2,492,892
Non-controlling interests	93,207	104,696	115,285
<b>Total equity</b>	<b>1,908,915</b>	<b>2,227,237</b>	<b>2,608,177</b>

## **Property, Plant and Equipment**

During the Track Record Period, our property, plant and equipment was comprised of freehold land and leasehold land held under finance lease, buildings, leasehold improvement, plant and machinery, furniture and equipment and motor vehicles.

Property, plant and equipment as at 31 December 2017 amounted to HK\$263.6 million, which increased by HK\$7.6 million as compared with the balance as at 31 December 2016. The increase was mainly attributable to additions of HK\$33.5 million for the purchase of production equipment, establishment of new retail outlets and purchase of a property for retail purchase, and offset by depreciation charge of HK\$24.2 million.

Property, plant and equipment as at 31 December 2016 amounted to HK\$256.0 million, which decreased by HK\$6.4 million as compared with the balance as at 31 December 2015. The decrease was mainly attributable to additions of HK\$16.3 million relating to purchase of furniture and equipment, and renovation of retail outlets, and offset by depreciation charge of HK\$21.9 million.

## **Intangible Assets**

During the Track Record Period, our intangible assets mainly represented the goodwill arose from the acquisition of Honour Essence Trading Limited in February 2015 and intangible assets generated from customer relationships, a management contract and an exclusive supply contract.

Intangible assets as at 31 December 2017 amounted to HK\$79.0 million, which decreased by HK\$2.3 million as compared with the balance as at 31 December 2016. The decrease was mainly attributable to annual amortization charge of HK\$2.4 million.

Intangible assets as at 31 December 2016 amounted to HK\$81.3 million, which increased by HK\$19.9 million as compared with the balance as at 31 December 2015. The increase was mainly attributable to additions of intangible assets of HK\$21.6 million in relation to a management contract and an exclusive supplier contract, offset by annual amortization charge of HK\$1.7 million.

## **Inventories**

During the Track Record Period, our inventories were comprised of raw materials, work in progress and finished goods and trading merchandise.

Inventories as at 31 December 2017 amounted to HK\$235.5 million, which increased by HK\$57.0 million as compared with the balance as at 31 December 2016. The increase was mainly attributable to increase in raw materials by HK\$50.4 million for the production of Owned Products and increase in finished goods by HK\$3.7 million as the number of retail outlet increased.

Inventories as at 31 December 2016 amounted to HK\$178.5 million, which increased by HK\$18.3 million as compared with the balance as at 31 December 2015. The increase was mainly attributable to increase in raw materials by HK\$3.6 million for the production of Owned Products and increase in finished goods by HK\$13.9 million as the number of retail outlet increased.

As at 31 March 2018, approximately HK\$76.6 million, or 32.5% of our inventories as at 31 December 2017 were subsequently consumed or sold.



## **Trade and other Current Assets**

During the Track Record Period, trade receivables and other current assets were comprised of trade receivables, prepayments and other receivables and deposits.

Trade receivables and other current assets as at 31 December 2017 amounted to HK\$221.6 million, which increased by HK\$27.1 million as compared with the balance as at 31 December 2016. The increase was mainly attributable to increase in trade receivable of HK\$26.2 million in relation to the increase in trade receivable from wholesales of Owned Products and distribution of Parent Group's products.

Trade receivables and other current assets as at 31 December 2016 amounted to HK\$194.5 million, which decreased by HK\$19.2 million as compared with the balance as at 31 December 2015. The decrease was mainly attributable to decrease in trade receivables of HK\$26.5 million in relation to the decrease in trade receivable from wholesales of Owned Products.

As at 31 March 2018, approximately HK\$128.7 million, or 75.4% of our trade receivables as at 31 December 2017 were subsequently settled.

## **Trade and other Payables**

During the Track Record Period, our trade and other payables were comprised of trade payables, and accruals and other payables.

Trade and other payables as at 31 December 2017 amounted to HK\$114.5 million, which increased by HK\$26.1 million as compared with the balance as at 31 December 2016. The increase was mainly attributable to increase in trade payables of HK\$16.4 million, which was mainly due to increase in purchase of raw materials and trading merchandise, and increase in accruals and other payables of HK\$9.7 million, which was primarily due to increase in payables for staff salaries, advertisement and promotion expenses and research and development expenses.

Trade and other payables as at 31 December 2016 amounted to HK\$88.4 million, which increased by HK\$11.4 million as compared with the balance as at 31 December 2015. The increase was mainly attributable to increase in accruals and other payables of HK\$10.5 million, which was primarily due to increase in payables for staff salaries and advertisement and promotion expenses.

## FINANCIAL RESOURCES AND LIQUIDITY

The table below sets out the information regarding cash and bank balances, working capital, total equity, current ratio and net gearing ratio as at 31 December 2015, 2016 and 2017:

	As at 31 December		
	2015 (HK\$'000)	2016 (HK\$'000)	2017 (HK\$'000)
Cash and bank balances	1,280,266	1,583,601	1,897,781
Working Capital <sup>(1)</sup>	1,541,472	1,833,755	2,207,433
Total Equity	1,908,915	2,227,237	2,608,177
Current Ratio <sup>(2)</sup>	14.7	15.9	16.0
Gearing Ratio <sup>(3)</sup>	0.03%	0.02%	0.02%

Note:

(1) Being net current assets

(2) Being current assets divided by current liabilities

(3) Being borrowings divided by total equity

The table below sets out the information regarding net cash generated from operating activities for the years ended 31 December 2015, 2016 and 2017:

	Year ended 31 December		
	2015 (HK\$'000)	2016 (HK\$'000)	2017 (HK\$'000)
Net cash generated from operating activities	353,576	467,721	469,144

In 2017, the Group funded its liquidity by resources generated internally. In 2016, the Group funded its liquidity by the net proceeds from the Listing and resources generated internally. In 2015, the Group funded its liquidity by the net proceeds from the Listing and resources generated internally.

Based on the Group's steady cash inflow from operations, coupled with sufficient cash and bank balances, the Group has adequate liquidity and financial resources to meet the daily operations and working capital requirements during the Track Record Period as well as to fund its expansion plans.

## MAJOR CUSTOMERS AND SUPPLIERS

The Group has two types of customers, namely retail customers and wholesale customers. Retail customers are individual customers who purchase merchandise or services from us through our retail outlets. Wholesale customers are customers who purchase in bulk directly from us and mainly consist of Tong Ren Tang Group, our overseas partners, local drug stores and clinics and third party local distributors. For the years ended 31 December 2015, 2016 and 2017, income received/receivable from the top five customers in aggregate accounted for approximately 50.1%, 53.6% and 49.4% of the Group's revenue, respectively, and income received/receivable from the single largest customer accounted for approximately 15.5%, 21.0% and 19.0% of the Group's revenue during the same periods, respectively. Majority of the Group's trade receivables are due within 90 days from the date of billings, and it normally grants credit periods ranging from 30 days to 90 days for wholesales to distributors.

The Group has two types of suppliers, namely suppliers of raw materials for our manufacturing operations and suppliers of merchandise for our retail and distribution operations. For the years ended 31 December 2015, 2016 and 2017, purchases paid/payable to the top five suppliers in aggregate accounted for approximately 48.7%, 63.0% and 72.9% of the Group's total purchases, respectively, and purchases paid/payable to the single largest supplier accounted for approximately 28.0%, 37.3% and 42.6% of the Group's total purchases during the same periods, respectively. Majority of the credit terms granted by the Group's suppliers are ranging from 30 to 90 days.

During the Track Record Period, among the Group's top five customers include a subsidiary of our ultimate holding company and a subsidiary of our intermediate holding company, both being our connected persons. These two connected parties are our wholesale customers. The normal credit periods granted to these two connected parties range from 30 days to 90 days. In addition, the Group's top five suppliers include our immediate holding company and our intermediate holding company and their associates, both being our connected persons. These connected parties are our supplier of raw materials and merchandise.

Save as disclosed above, none of the Directors, their associates or any shareholder of the Company (who to the knowledge of the Directors owns more than 5% of the share capital of the Company) has any interest in any of the top five customers and suppliers.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF BUSINESSES**

In July 2014, the Group completed the acquisition of 50% of the issued share capital of Union Health International Limited (with a business name as Fook Ming Tong Chinese Medical Center) with total consideration of HK12.0 million, which was satisfied by the proceeds from GEM Listing. The business name of Union Health has been changed to "Beijing Tong Ren Tang Fook Ming Tong Chinese Medical Centre". It is a Chinese medical center principally providing, among others, acupuncture, bone setting, massage services in Hong Kong, and is accounted for as a joint venture of the Group.

On 27 February 2015, the Group has completed the acquisition of 51% of the issued share capital of Honour Essence Trading Limited with total consideration of HK\$71.4 million, which was satisfied by the allotment and issue of 7,100,000 Shares to the vendor at HK\$10.06 per Share. Honour Essence Trading Limited is principally engaged in the distribution of Chinese medicine in Hong Kong.

Save as disclosed above, the Group did not have any material acquisition or disposals of corporate interests or businesses during the Track Record Period and up to the date of this announcement.

## **RECENT DEVELOPMENTS**

As at the Latest Practicable Date, the Group's business coverage outside the PRC has extended to 21 countries and regions where we had retail and wholesale businesses and 82 retail outlets, achieving the global development strategy of "Anchor in Asia and march to overseas".

We tapped into new markets abroad, while consolidating existing international market. Following our expansion into the United States in 2016, the Group has achieved a breakthrough in our expansion into new mainstream markets. We established 6 new retail outlets in two new markets, Switzerland and South Africa. We also launched a total of 5 new retail outlets in the Singapore, Australia, Canada and the United States to further enhance our influence on the existing markets. Based on our experience in cultivating overseas market, we preached the idea of "saving lives at a critical moment" in Europe and made great contribution to advancing the health of the global community through identification, exploration and research on common local illnesses and diseases.

As the core market of the Group, we strive to focus on Hong Kong to comprehensively promote the internationalization of TCM. From 2017 to the Latest Practicable Date, we opened three new retail outlets for the purpose of rationalizing the retail network in Hong Kong. This brought the number of our retail outlet in Hong Kong to 27. We also further promoted products under Tong Ren Tang brand through diverse measures to increase our market share and consolidate the leading position of Tong Ren Tang brand in the Chinese medicine market in Hong Kong.

## **FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2018**

On 26 April 2018, the Company announced the unaudited consolidated quarterly results of the Group for the three months ended 31 March 2018. For details, please refer to the said announcement and the first quarterly report for the three months ended 31 March 2018 published on 10 May 2018.

## **RISK FACTORS**

There are certain risks involved in our operations and many of these risks are beyond our control, which include but not limited to the following risks:

### **Risks in relation to relationship with our Parent Group**

The Parent Group has substantial influence over our business, including matters relating to our business operations, our management and policies and decisions regarding mergers, expansion plans, business consolidation, the sale of all or substantially all of our assets and election of directors. To this end, our business operations and financial performance is highly associated with our relationship with our Parent Group. The risks in relation to our relationship with our Parent Group include but not limited to:

- The success of our business depends on our reputation and product brand name which may be adversely affected by counterfeit products;
- We rely on the trademark license agreement and the authorisation letter from Tong Ren Tang Holdings for the use of “Tong Ren Tang” trademarks for our production of products and the right to use the “Tong Ren Tang” trademarks for retail operations outside of the PRC;
- Parent Group has not registered the “Tong Ren Tang” trademarks in some jurisdictions; and
- Tong Ren Tang Ltd. and Tong Ren Tang Technologies may terminate our exclusive distributorship framework agreements for the distribution of their products in Non-PRC Markets.

In the event our Parent Group cannot maintain the reputation and product brand name of “Tong Ren Tang”, cease to authorise us to use the “Tong Ren Tang” trademarks, or cease to renew the exclusive distributorship framework agreements with us for the distribution of its products in Non-PRC Markets, the business, the financial condition and results of operations of the Group may be adversely affected.

### **Risks in relation to our expansion of operations and investment strategies**

We plan to continuously expand our business to capture new opportunities. Although we will conduct detailed research on the relevant market conditions, competitive landscape, industry trends, consumer demand and other important factors, there exist uncertainties, risks and difficulties such as greater entry barriers, failure to secure new locations for retail outlets, failure to expand product portfolio, unavailability of suitable joint venture partners, lack of understanding of the local competitive environment, financial and management system or legal system, volatility in currency exchange rates, potentially more stringent product liability requirements, cultural differences, changes in political, regulatory or economic conditions in the foreign countries or regions, restrictions on foreign trade, as well as possible difficulties in the anticipation of new trends, understanding customers’ needs and management of overseas personnel, joint

ventures and our business operations. In addition, international acquisitions also involve takeovers, mergers and acquisitions, anti-trust and other laws and regulations of other jurisdictions and there may be difficulties in meeting applicable regulatory requirements. Moreover, there can be no assurance that we will have sufficient management experience, expertise and/or financial resources to successfully adapt to new trends and developments and compete successfully against companies with a longer operating history in these segments or the revenue generated will be as projected. In the event that we are unable to manage any of the above risks effectively to develop such new market segments into sources of profit growth for the Group, our expansion strategies even implemented may not yield the desired results, which may in turn have a material and adverse effect on our business prospects, results of operations and financial condition.

The successful implementation of the strategies and plans we have developed to grow our business depends on a number of factors including, amongst other things, growth of the relevant industries in Non-PRC Markets and changes in the competitive landscape including similar products introduced by competitors, our ability to improve our operational and financial systems, procedures and controls, increase our annual production capacity and output, and recruit and train our employees. Furthermore, we need to maintain and strengthen our existing relationships with customers, suppliers and other third parties while developing new business relationships. We cannot assure you that our current and planned operations, personnel, systems and internal control measures will be adequate to support our future growth. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, execute our business strategies or respond to competitive pressures in a timely manner.

We may not precisely forecast the market condition during investment. The project may fail to meet the future market demand and the investment cost may not be recovered, resulting in the project may fail and consequently the business, the financial condition and results of operations of the Group may be adversely affected.

### **Risk in relation to the cooperation with our joint venture partners**

We established our overseas distribution network through the setting up of companies with local joint venture partners in different jurisdictions for the operation of our retail stores and wholesale operations. The expansion of operations, maintaining the relationships between us and our joint venture partners is important to us. Besides, we do not have absolute control over these joint ventures as we do not wholly own their equity interests. If any of our joint venture partners terminates its business relationship with us, we may not be able to find a substitute partner with the same strategic fit into our operations or, where we are able to find such a substitute, enter into a similar agreement with such replacement partner on commercially acceptable terms and in a timely manner, or at all. The continued expansion of our distribution network is also dependent on our success in finding new joint venture partners that are willing to cooperate with us. If we are unable to successfully exercise control over our joint ventures, maintain our business relationships with our existing joint venture partners, or develop business relationships with new joint venture partners, our business, financial condition and results of operations could be materially and adversely affected.

Further, our ability to successfully cooperate with our joint venture partners and realize the benefits of the relevant joint venture depends upon, among other things, successful integration of our partners' expertise into our business, which can be particularly difficult due to cultural differences, geographic obstacles and other intangible factors. There can be no assurance that our joint ventures will generate the expected benefits. If we fail to realise the expected benefits from our joint ventures, our financial condition and results of operations may be materially and adversely affected.

**Our production facilities are located at one single location, and any natural disaster or other event affecting these facilities may severely disrupt our business.**

Our production facilities are located at a single location in Hong Kong and we have not provided for any backup facilities. We also do not have a formal business continuity or disaster recovery plan. In the event of an earthquake, fire, drought, flood and/or any other natural disaster, political instability, extended outages of critical utilities or transportation systems, terrorist attack, or other event that limits our ability to operate these facilities, we may need to incur substantial additional expenses to repair or replace the damaged production equipment or facilities, or even evacuate the current premises and relocate our production facilities to an alternative location. We may also have to outsource part or all of our production operations. Any significant delays in our production or extended disruptions of our operations in the future would affect our ability to produce and supply products as well as our ability to meet our delivery obligations to our distributors. This may cause an adverse impact on our relationships with our distributors, suppliers and business partners, in which case, our business, financial condition and results of operations would be materially and adversely affected.

Further, our production is subject to risks such as fire, theft, machinery breakdown, sub-standard performance of our production equipment, shortage of water and fuel. Although we maintain insurance coverage for certain of our production equipment and machinery, there can be no assurance that such insurance will adequately compensate us for any loss arising from any damage or disruption relating to our production.

**Risks in relation to the change of worldwide economy and commercial environment risk**

Our business covers Hong Kong, PRC and other overseas areas. The operations and performance of our Group are subject to changes in global and regional economic and commercial environment. Uncertainty about global and regional economic and commercial environment poses risks to us because consumers and businesses tend to postpone or decrease spending in response to various factors including the availability and cost of credit, unemployment, financial market volatility, geopolitical issues, restrictive government policies and regulations, negative financial news, and declines in their income or asset values. Other factors that could influence worldwide or regional demand for products and services of our Group include fluctuations in medical expenses, changes in population structure and labor costs, consumer confidence as well as other macroeconomic factors affecting consumer spending. Any negative change in these or other relevant global and regional economic conditions could materially and adversely affect demand for our products and services and hence our financial results and business prospects.

For the years ended 31 December 2015, 2016 and 2017, we derived 57.5%, 55.1% and 50.3% of our total revenue from Hong Kong. While Hong Kong's economy has recorded continuous growth over the years, there is no assurance that future growth will be sustained at similar rates or at all. Hong Kong government adjusts its monetary, fiscal and other policies and measures from time to time to manage economic growth and prevent overheating and potential risks in specific industries or markets. Changes in the industries in Hong Kong in which we operate may result in a lower than expected growth rate or decline of our businesses.

**Risk in relation to our raw material procurement, safety and relevant legal compliance**

Some of the raw materials used in pharmaceutical section are plant and animal, of which some of them are rare Chinese medicine or endangered species and are governed by relevant laws and regulations. If the laws or regulations relating to the usage of raw materials are changed, or the suppliers cannot provide the materials on time, or there is a change in the price or the quality of raw materials, the product research and development, manufacture, operation and reputation of the Group will be affected.

## **USE OF PROCEEDS**

The Company was listed on GEM on 7 May 2013 with issue of 230,000,000 Shares at HK\$3.04 per Share. The net proceeds from the GEM Listing raised by the Company are HK\$636.7 million. As at the date of this announcement, the proceeds raised from GEM Listing has been fully utilised in accordance with the planned use of proceeds as disclosed in the prospectus of the Company dated 25 April 2013.

## **NO MATERIAL ADVERSE CHANGE**

The Directors confirm that subsequent to 31 December 2017 and up to the date of this announcement, there are no unfavorable trends and developments which may have a material adverse impact on the Group's business and financial performance.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

As a listed company engages business in Hong Kong, the Group is subject to various laws and regulations including Companies Ordinance (Chapter 622), Business Registration Ordinance (Chapter 310), Inland Revenue Ordinance (Chapter 112) and Employment Ordinance (Chapter 57). Our Group has put in place internal controls to ensure compliance of the same. In addition, as the Group also engages business in certain jurisdictions, compliance procedures are in place to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units in the Company and subsidiaries from time to time.

The Group has fully complied with all material laws and regulations for its business operations during the Track Record Period and up to the Latest Practicable Date.

## **BUSINESS OUTLOOK**

As a long-established and reputable Chinese brand, the Group has adhered to its philosophy of "Innovation through Succession, Development by Innovation". The Group has committed to develop an internationalized and professional China's traditional Chinese medicine group that integrates the elements of cultivation, procurement, research and development, production, sales, service, culture and education. As a missionary for TCM in the "Belt and Road" initiative, the Company shoulders the responsibility of promoting the cultural heritage and innovation of the TCM. With our continuous efforts on exploring the cultural connotations of TCM together with the "Going Abroad" development strategy, we have commenced the "Expedition of TCM Culture of Tong Ren Tang along the Belt and Road" campaign with a view to enhance the overseas inheritance and development of TCM culture. Meanwhile, targeting on endemic and frequent diseases occurred in foreign regions, the Group will focus on the research, development and promotion of its products and the provision of high quality Chinese medical service with an aim to make contributions to the prevention and treatment of diseases and the healthcare and wellness of the general public, in order to transform TCM into a golden key to a healthy life for the people.

With gradual acceleration of the Chinese medicine integrating into the international medical system, the development of Chinese medicine health service industry possesses huge potential, which will promote the innovation of TCM and accelerate the integration and development of TCM traditional thinking and modern science and technology. As an envoy of Chinese medicine practitioners of the Belt and Road, The Group is echoing with its corporate spirit of "Nurturing kindness and virtue, Preserving tranquility and wellness", vigorously promoting TCM theory, service and culture into the national health system along the Belt and Road, forming the medical treatment, health care, scientific research, education, industry and culture into a new collaborative development.

## **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

The Company discloses below the biographical information of each Director:

### **Non-Executive Directors**

#### **Mei Qun (Age: 61)**

Mr. Mei Qun (“**Mr. Mei**”) is the chairman of the Company and is a deputy chief pharmacist with a postgraduate qualification. Mr. Mei was formerly the general manager of Tong Ren Tang Holdings, the chairman of Tong Ren Tang Ltd., the shares of which are listed on the Shanghai Stock Exchange, the chairman of Tong Ren Tang Technologies, the shares of which are listed on the Main Board of the Stock Exchange and the chairman of Beijing Tong Ren Tang Pharmaceutical Co., Ltd.. Mr. Mei is currently the chairman of Tong Ren Tang Holdings; the chairman of Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd., the chairman of Beijing Tong Ren Tang Chinese Medicine (Hong Kong) Group Company Limited, the chairman of Beijing Tong Ren Tang International Co., Ltd.. Mr. Mei is the vice president of Chinese Society of Traditional Chinese Medicine and the president of Beijing Pharmaceutical Profession Association. Mr. Mei was also the member of the Education Technology Culture Health and Sports Committee of Beijing’s 14th National People’s Congress.

Mr. Mei has entered into a service agreement with the Company for an initial term of three years commencing from May 2017 which is subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Articles of Association. For the year ended 31 December 2017, Mr. Mei did not receive any remuneration from the Company. Pursuant to his service agreement with the Company, Mr. Mei will not be entitled to remuneration from the Company.

As at the Latest Practicable Date, Mr. Mei held 3,000,000 shares in Tong Ren Tang Technologies, representing 0.234% of the issued share capital of Tong Ren Tang Technologies, 93,242 shares in Tong Ren Tang Ltd., representing 0.007% of the issued share capital of Tong Ren Tang Ltd..

### **Executive Directors**

#### **Ding Yong Ling (Age: 54)**

Ms. Ding Yong Ling (“**Ms. Ding**”) is an executive Director and the chief executive officer of the Company and is mainly responsible for our day-to-day operation and management. Ms. Ding has been appointed as a managing director of the Company since September 2004. Ms. Ding joined the Beijing Tong Ren Tang Group in 1984 and was formerly the head of the foreign trade division of Tong Ren Tang Holdings, manager of the import and export branches and the executive director and the deputy general manager of Tong Ren Tang Technologies. Ms. Ding was the director of Beijing Tong Ren Tang International Co., Ltd from June 2003 to September 2017. Ms. Ding is currently the director and the deputy general manager of Tong Ren Tang Holdings. Ms. Ding graduated from the Party School of the Central Committee of the Communist Party of China in August 1997 with a bachelor’s degree in major of economic management, and she further completed a course for research student under employment in international business administration at Business School of the University of International Business and Economics in April 2002.

Ms. Ding has entered into a service agreement with the Company for an initial term of three years commencing from 15 April 2016 which is subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Articles of Association. Pursuant to her service agreement with the Company, Ms. Ding will not be entitled to director’s fee from the Company. For the year ended 31 December 2017, Ms. Ding did not receive any remuneration from the Company for her service as the chief executive officer of the Company.



As at the Latest Practicable Date, Ms. Ding held 300,000 Shares, representing 0.035% of the issued share capital of the Company.

### **Zhang Huan Ping (Age: 57)**

Mr. Zhang Huan Ping (“**Mr. Zhang**”) is an executive Director and a deputy general manager of the Company and is mainly responsible for production. Mr. Zhang joined the Company as a deputy general manager in May 2008 and was appointed as a Director on 1 February 2011. Mr. Zhang joined the Beijing Tong Ren Tang Group in May 1979 and formerly served as the deputy manager of Tong Zhou Medicine Factory and Medicine Wine Factory of Tong Ren Tang Ltd.. Mr. Zhang also served as an executive director of Tong Ren Tang Technologies from June 2009 to April 2010. Mr. Zhang graduated in major of economic management (long distance program) from the Correspondence Institute of Party School of the Central Committee of the Communist Party of China in December 2000. He is a pharmacist-in-charge conferred by Beijing Intermediate Professional Technical Titles Evaluation Committee in November 2002.

Mr. Zhang has entered into a service agreement with the Company for an initial term of three years commencing from 15 April 2016 which is subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Articles of Association. Pursuant to his service agreement with the Company, Mr. Zhang will not be entitled to director’s fee from the Company. For the year ended 31 December 2017, Mr. Zhang received a total amount of HK\$1,673,000 for his service as the deputy general manager of the Company. His emolument package is determined with reference to with reference to the economic situation, the market condition, the responsibilities and duties assumed by him as well as his individual performance.

### **Lin Man (Age: 42)**

Ms. Lin Man (“**Ms. Lin**”) is an executive Director, the chief financial officer and the company secretary of the Company and is mainly responsible for finance management. Ms. Lin joined the Company in October 2004 and was appointed as the company secretary in May 2005 and the chief financial officer in October 2008. Ms. Lin was appointed as a Director on 1 February 2011. Ms. Lin is a member of the Hong Kong Institute of Certified Public Accountants. Ms. Lin obtained a bachelor’s degree in arts in Polish from Beijing Foreign Studies University in July 1999 and a bachelor’s degree in accounting and finance from the University of Lancaster in July 2004.

Ms. Lin has entered into a service agreement with the Company for an initial term of three years commencing from 15 April 2016 which is subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Articles of Association. Pursuant to her service agreement with the Company, Ms. Lin will not be entitled to director’s fee from the Company. For the year ended 31 December 2017, Ms. Lin received a remuneration of HK\$1,673,000 for her service as the chief financial officer and company secretary of the Company. Her emolument package is determined with reference to with reference to the economic situation, the market condition, the responsibilities and duties assumed by her as well as her individual performance.

As at the Latest Practicable Date, Ms. Lin held 220,000 Shares, representing 0.026% of the issued share capital of the Company.

### **Independent Non-executive Directors**

#### **Tsang Yok Sing, Jasper (Age: 71)**

Mr. Tsang Yok Sing, Jasper (“**Mr. Tsang**”), G.B.M., G.B.S., J.P., has been appointed as an independent non-executive Director of the Company on 12 September 2017. He is an Honorary Professor of the Faculty of Social Science of The Chinese University of Hong Kong and the Convenor of Hong Kong Vision Research Programme. Mr. Tsang held a number of positions in public service, including the President of

the Fourth and the Fifth Legislative Council of Hong Kong Special Administrative Region (“HKSAR”) from 2008 to 2016. Prior to his election as President of the Legislative Council of the HKSAR, Mr. Tsang served as a member of the Legislative Council elected from the Kowloon West constituency from 1998 to 2008 and a member of the Executive Council of the HKSAR from 2002 to 2008. From 1992 to 2003, he served as Chairman of the Democratic Alliance for the Betterment of Hong Kong. Mr. Tsang was actively involved in the establishment of the HKSAR, he served as a member of the Preparatory Committee established by the Standing Committee of the Chinese National People’s Congress in 1996 and a member of the Provisional Legislative Council of the HKSAR from 1997 to 1998. Mr. Tsang was a member of the National Committee of the Chinese People’s Political Consultative Conference from 1993 to 2013, a non-executive director of the Hong Kong Securities and Futures Commission from 2001 to 2007, a member of the Executive Committee of the Commission on Strategic Development from 2005 to 2008, a board member of the Airport Authority Hong Kong from 2005 to 2008, a member of the Independent Commission Against Corruption Complaints Committee from 2003 to 2008 and a member of the Disaster Relief Fund Advisory Committee from 2002 to 2008. Mr. Tsang also served as a member of the Council of The Open University of Hong Kong from 1996 to 2005 and a member of the Standing Committee on Language Education and Research from 1996 to 2000. Mr. Tsang obtained Bachelor of Arts degree at The University of Hong Kong in 1968, Certificate in Education at The University of Hong Kong in 1981 and Master of Education degree at The University of Hong Kong in 1983. Mr. Tsang was appointed as a Justice of the Peace (J.P.) in 1998 and was awarded the Gold Bauhinia Star (G.B.S.) in 2002 and the Grand Bauhinia Medal (G.M.B.) in 2015.

Mr. Tsang has entered into an appointment letter with the Company for an initial term of three years commencing from September 2017 which is subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Articles of Association. Pursuant to his appointment letter with the Company, he will be entitled to remuneration of HK\$240,000 per annum, which is determined by the Board upon the recommendation of the remuneration committee of the Board (the “**Remuneration Committee**”) by reference to his experience and responsibilities in the Company and the prevailing market conditions and is subject to an annual review.

#### **Zhao Zhong Zhen (Age: 60)**

Mr. Zhao Zhong Zhen (“**Mr. Zhao**”) has been appointed as an independent non-executive Director of the Company on 15 April 2013. Mr. Zhao is currently a professor and an associate dean of the School of Chinese Medicine of Hong Kong Baptist University. Mr. Zhao had been an associate professor of Hong Kong Baptist University from April 1999 to July 2005. Mr. Zhao is currently a member of the Chinese Pharmacopoeia Commission and a member of Chinese Medicine Development Committee. From 1985 to 1987, Mr. Zhao was a research assistant of China Academy of Chinese Medical Sciences. From 1987 to 1988 and 1991 to 1992, Mr. Zhao was a visiting scholar of Tokyo University of Pharmacy and Life Science. Mr. Zhao was a research director of a laboratory for Chinese medicines in Japan during the period from October 1992 to April 1999. From July 2009 to January 2010, Mr. Zhao was a visiting scholar of Osher Research Centre of Harvard Medical School. Mr. Zhao obtained a bachelor’s degree and a master’s degree, both in Chinese medicine, from Beijing University of Chinese Medicine in March 1982, and from China Academy of Chinese Medical Sciences in December 1985, respectively. Mr. Zhao obtained his doctorate degree in pharmacy in Tokyo University of Pharmacy and Life Science in March 1992.

Mr. Zhao has entered into an appointment letter with the Company for an initial term of three years commencing from 15 April 2016 which is subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Articles of Association. Pursuant to his appointment letter with the Company, he will be entitled to remuneration of HK\$240,000 per annum, which is determined by the Board upon the recommendation of the Remuneration Committee by reference to his experience and responsibilities in the Company and the prevailing market conditions and is subject to an annual review.

### **Chan Ngai Chi (Age: 46)**

Mr. Chan Ngai Chi (“**Mr. Chan**”) was appointed as an independent non-executive Director of the Company on 15 April 2013. Prior to joining the Company, Mr. Chan had more than 20 years of financial management, compliance and auditing experience. Mr. Chan worked in the audit division of PricewaterhouseCoopers Hong Kong from August 1994 to July 1999 and various listed companies in Hong Kong and the U.S.. Mr. Chan worked in Tong Ren Tang Technologies as the financial controller and company secretary from 2004 to 2007. Mr. Chan worked as the principal financial officer of Gushan Environmental Energy Company Limited, which was a company listed on the New York Stock Exchange since December 2007 and privatized in October 2012. Mr. Chan is currently the principal financial officer of China Metal Resources Utilization Limited (Stock code: 1636). Mr. Chan is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Chan graduated from the Hong Kong University of Science and Technology with a bachelor’s degree in business administration in accounting in 1994 and also obtained a master’s degree in Science from the Chinese University of Hong Kong in 2003.

Mr. Chan has entered into an appointment letter with the Company for an initial term of three years commencing from 15 April 2016 which is subject to retirement by rotation and re-election at the annual general meeting of the Company pursuant to the Articles of Association. Pursuant to his appointment letter with the Company, he will be entitled to remuneration of HK\$240,000 per annum, which is determined by the Board upon the recommendation of the Remuneration Committee by reference to his experience and responsibilities in the Company and the prevailing market conditions and is subject to an annual review.

Save as disclosed above, each of the Directors confirms that (i) each of them has not held any directorships in the last three years in any public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) each of them does not have any relationship with any other Directors, senior management or substantial or Controlling Shareholders of the Company; (iii) each of them does not have any interests in the Shares within the meaning of Part XV of the SFO; (iv) there are no other matters concerning all our Directors’ appointment that need to be brought to the attention of our Shareholders and the Stock Exchange; and (v) there are no other matters which shall be disclosed pursuant to Rule 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

### **Senior Management**

#### **Hua Ji Hong (Age: 43)**

Ms. Hua Ji Hong (“**Ms. Hua**”) joined the Group in March 2004 and have been a deputy general manager of the Company since October 2008. Ms. Hua is mainly responsible for the brand management, marketing, information management as well as sales and business management in traditional markets. Ms. Hua joined Beijing Tong Ren Tang Group in 2000. Ms. Hua obtained a bachelor’s degree and a master’s degree, both in Chinese medicine, from Beijing University of Chinese Medicine in June 1997 and July 2000, respectively.

#### **Anyang Ma, JP (Age: 56)**

Mr. Anyang Ma (“**Mr. Ma**”), deputy general manager of the Company, he is mainly responsible for the project investment. Mr. Ma obtained a master’s degree of Herbal Medicine from the University of Sydney in December 2008. Mr. Ma obtained his doctorate degree in Clinical Discipline of Chinese and Western Integrative Medicine from Fujian University of Traditional Chinese Medicine in December 2015. Mr. Ma is the founder and the managing director of Beijing Tong Ren Tang (Australia) Pty Ltd.. During the past of more than 30 years in his career, Mr. Ma has accumulated extensive experiences in various TCM sectors including Chinese herbal medicine processing and manufacturing, import and export, wholesale and retail, research & development, quality assurance, clinics and management. Mr. Ma has been appointed as the committee member of Australian Mirror Committee (HE031) of the Chinese medicine standardization

committee under the International Standard Organization (ISO/TC249) since August 2010. Mr. Ma is also the current president of Chinese Medicine Industry Council of Australia (CMIC).

**Li Xia (Age: 51)**

Ms. Li Xia (“**Ms. Li**”) joined the Company in October 2008 and have been the chief engineer of the Company since October 2008. Ms. Li has been in Beijing Tong Ren Tang Group since 1990 and is mainly responsible for research and development of Chinese medicines and healthcare products. Ms. Li obtained a bachelor’s degree in Chinese medicine from Beijing University of Chinese Medicine in July 1989.

Save as disclosed above, during the three years preceding the date of this announcement, none of our senior management held any directorships in any public companies whose securities are listed on any securities market in Hong Kong or overseas. None of our senior management has any relationship with other Directors, senior management and Controlling Shareholders of the Company.

**DOCUMENTS AVAILABLE FOR VIEWING**

Copies of the following documents will be made available for viewing on the Company’s website at [www.tongrentangcm.com](http://www.tongrentangcm.com) and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk):

- (a) the Directors’ report and annual report, and the audited accounts of the Company for the financial year ended 31 December 2017;
- (b) the half-year report of the Company for the six months ended 30 June 2017;
- (c) the Articles of Association;
- (d) the 2018 first quarterly report of the Company for the three months ended 31 March 2018;
- (e) a circular of the Company dated 31 March 2017 relating to the proposals for general mandates to issue Shares and to repurchase Shares, re-election of retiring directors, declaration of final dividend and notice of the annual general meeting held on 8 May 2017;
- (f) a circular of the Company dated 15 November 2017 relating to certain continuing connected transactions undertaken by the Group regarding renewal of the Exclusive Distributorship Framework Agreements and notice of the extraordinary general meeting held on 1 December 2017; and
- (g) announcements and other corporate communications made by the Company prior to the date of this announcement as required under the GEM Listing Rules and the Main Board Listing Rules.

## DEFINITIONS

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

“Articles of Association”	the memorandum and the articles of association of the Company as adopted by the Company from time to time
“associate(s)”	has the meaning ascribed thereto under the Main Board Listing Rules
“Beijing Tong Ren Tang Group”	Tong Ren Tang Holdings, Tong Ren Tang Ltd., TRT Technologies and their respective associates, including the Group (and its predecessors)
“Board”	the board of Directors
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Chinese Medical Consultation”	the consultation services offered by the Group in the jurisdictions where it operates which may refer to Chinese medical consultation or Chinese healthcare consultation, as the case may be, where the local laws and regulations so recognized
“Chinese Medicine(s)” (中成藥)	readily processed Chinese medicine in various intake forms (such as Wan, granules and soft capsules) based on the prescription, nature and functions of Chinese medicine
“Chinese Medicine Products”	any or a combination of any of Chinese Medicines, Healthcare Products and Chinese herbs
“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 currently listed on GEM
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Main Board Listing Rules
“Deed of Non-competition”	a deed of non-competition entered into between Tong Ren Tang Holdings, Tong Ren Tang Ltd., Tong Ren Tang Technologies and the Company on 18 April 2013
“Director(s)”	the director(s) of the Company

“Exclusive Distributorship Framework Agreement(s)”	The exclusive distributorship framework agreement dated 28 October 2014 and 8 November 2017 entered into between the Company and Tong Ren Tang Ltd. and Tong Ren Tang Technologies in relation to the distribution of the “Tong Ren Tang” branded products supplied by the Tong Ren Tang Ltd. Group or the Tong Ren Tang Technologies Group in the Non-PRC Markets.
“GEM”	GEM operated by the Stock Exchange
“GEM Listing”	listing of the Shares on GEM on 7 May 2013
“GEM Listing Rules”	The Rules Governing the Listing of Securities on GEM (as amended from time to time)
“GLSPC”	Sporoderm-broken Ganoderma Lucidum Spores Powder Capsule (破壁靈芝孢子粉膠囊) manufactured by the Group
“Group”, “us” or “we” or “our”	the Company and its subsidiaries (either directly owned or indirectly owned)
“Healthcare Products” ( 保 健 品 )	Chinese herbs based edible products manufactured which serve to enhance the function of human body for certain group of people but are not used for medical treatment and excluding Chinese Medicines
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Main Board Listing Rules) the Directors, chief executive or substantial shareholders (within the meaning of the Main Board Listing Rules) of the Company or any of its subsidiaries or any of their respective associates
“Latest Practicable Date”	3 May 2018, being the latest practicable date prior to the issue of this announcement for ascertaining certain information contained in this announcement
“Listing Committee”	the listing committee of the Stock Exchange
“Macao”	the Macao Special Administrative Region of the PRC
“Main Board”	the stock market operated by the Stock Exchange, which exclude, the option market and which continues to be operated by the Stock Exchange in parallel with GEM and which, for avoidance of doubt, excludes GEM
“Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)

“Overseas Partners”	the local shareholders or interest holders, as the case may be, of the overseas joint venture companies formed together with the Company
“Owned Products”	Chinese medicine and/or healthcare products to be researched, developed and manufactured by the Group from time to time, including the Chinese medicine and/or healthcare products containing ganoderma lucidum or ganoderma lucidum spore as raw materials to be researched, developed and manufactured by the Group (including GLSPC) but, for the avoidance of doubt, excluding Angong Niu Huang Wan
“Parent Group”	Tong Ren Tang Holdings, Tong Ren Tang Ltd., Tong Ren Tang Technologies and their respective associates and excluding the Group (including their respective predecessors)
“PRC”	the People's Republic of China and for the purpose of this announcement, excluding Hong Kong, Macao and Taiwan
“PRC Distribution Framework Agreement(s)”	the framework agreement firstly entered into between the Company and Tong Ren Tang Holdings on 3 October 2013 and renewed on 14 December 2016, pursuant to which Tong Ren Tang Holdings, its subsidiaries (either directly owned or indirectly owned), its jointly-controlled entities and its associates (other than Tong Ren Tang Technologies and its subsidiaries), as a non-exclusive distributor of the Company, would purchase the Owned Products from the Group and then distribute the same to, among others, retailers or end-users in the PRC
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended from time to time
“Share(s)”	the shares of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed thereto under the Main Board Listing Rules
“TCM”	traditional Chinese medicine

“Tong Ren Tang Holdings”	中國北京同仁堂(集團)有限責任公司 (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 Group”	Tong Ren Tang Holdings, its subsidiaries (either directly owned or indirectly owned), its jointly-controlled entities and its associates (other than Tong Ren Tang Technologies and its subsidiaries)
“Tong Ren Tang Ltd.”	北京同仁堂股份有限公司 (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
“Tong Ren Tang Technologies Group”	Tong Ren Tang Technologies, its subsidiaries (either directly owned or indirectly owned) and its associates (other than the Group)
“Track Record Period”	the three years ended 31 December 2017
“TRT Hong Kong Medicine”	Beijing Tong Ren Tang Hong Kong Medicine Management Limited, a company incorporated in Hong Kong on 5 October 1990 and is held as to 65% and 10% by two Independent Third Parties, and as to 25% by Tong Ren Tang Holdings
“TRT International Natural-Pharm”	北京同仁堂國際藥業有限公司 (Beijing Tong Ren Tang International Natural-Pharm Co., Ltd.*), a company incorporated in the PRC with limited liability on 6 March 2006, and is wholly-owned by the Company
“TRT (Taiwan)”	Beijing Tong Ren Tang Tai Fong Co., Ltd., a company incorporated in Taiwan on 6 November 2003, which is held as to approximately 53% and 47% by Tong Ren Tang Holdings and Independent Third Parties respectively



“TRT (UK)”	Beijing Tong Ren Tang (UK) Limited, a company incorporated in the United Kingdom on 14 December 1993 and is held as to 65% and 10% by two Independent Third Parties, and as to 25% by Tong Ren Tang Holdings
“Transfer of Listing”	the transfer of the listing of the Shares from GEM to the Main Board pursuant to Chapter 9A of the Main Board Listing Rules
“U.K.”	the United Kingdom

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

Hong Kong, 11 May 2018

*As at the date of this announcement, 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 announcement, 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 announcement 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 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).*

*\* For identification purposes only*