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Tong Ren Tang Technologies Co. Ltd.

北京同仁堂科技發展股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1666)

PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

The Board hereby announces that, as each of the Distribution Framework Agreement and the Master Procurement Agreement entered into between the Company and Tong Ren Tang Holdings will expire on 31 December 2019, the parties renewed such agreements on 16 October 2019, each for a term of three years from 1 January 2020 to 31 December 2022, and set the annual caps for the continuing connected transactions contemplated under each of the aforesaid agreements for the three years ending 31 December 2022.

Tong Ren Tang Holdings is the ultimate controlling shareholder of the Company and is therefore a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated under each of the CCT Framework Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios in respect of the estimated annual caps for the continuing connected transactions under the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement respectively exceed 5%, both the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement, as well as the proposed annual caps for the continuing connected transactions contemplated thereunder are subject to independent shareholders' approval requirement in addition to reporting, annual review and announcement requirements under Chapter 14A of the Hong Kong Listing Rules.

An extraordinary general meeting of the Company will be convened to seek the approval of the Independent Shareholders in this regard. Tong Ren Tang Holdings and its associates will abstain from voting in respect of the relevant resolutions at the extraordinary general meeting.

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in relation to the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement, as well as the proposed annual caps for the continuing connected transactions contemplated thereunder, and an independent financial adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders.

A circular containing, among others, details of the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement as well as the proposed annual caps for the continuing connected transactions contemplated thereunder, a letter from the Independent Board Committee and the advice from the independent financial adviser to the Independent Board Committee and Independent Shareholders, together with a notice convening the extraordinary general meeting of the Company, will be dispatched to the Shareholders on or before 31 October 2019.

BACKGROUND

Reference is made to the announcements of the Company dated 29 September 2016 and 28 October 2016 in relation to renewal of the Distribution Framework Agreement and the Master Procurement Agreement between the Company and Tong Ren Tang Holdings, the ultimate controlling shareholder of the Company.

As each of the Distribution Framework Agreement and the Master Procurement Agreement entered into between the Company and Tong Ren Tang Holdings will expire on 31 December 2019, the parties renewed such agreements on 16 October 2019, each for a term of three years from 1 January 2020 to 31 December 2022, and set the annual caps for the continuing connected transactions contemplated under each of the aforesaid agreements for the three years ending 31 December 2022.

The Relevant Products procured by the Group from Tong Ren Tang Group under the renewed Master Procurement Agreement are all outside the production scope of the Group. The products sold by the Group to the members of Tong Ren Tang Group under the renewed Distribution Framework Agreement the scope of which is different from the Relevant Products under the renewed Master Procurement Agreement.

PROPOSED RENEWAL OF THE DISTRIBUTION FRAMEWORK AGREEMENT

Major Terms of the Renewed Distribution Framework Agreement

Renewal Date: 16 October 2019

Parties: (i) the Company
(ii) Tong Ren Tang Holdings

Term of the Agreement: Subject to the approval by the Independent Shareholders, the renewed Distribution Framework Agreement is for a term of three years from 1 January 2020 to 31 December 2022.

Principal Terms and Conditions: Pursuant to the renewed Distribution Framework Agreement:

- The Company agreed that the Group may, from time to time, sell its products to members of Tong Ren Tang Group.
- Tong Ren Tang Holdings agreed that Tong Ren Tang Group as the non-exclusive distributor of the Group, any member of Tong Ren Tang Group may, from time to time, purchase products from the Group and then distribute the same to retailers and/or end-users.
- Details of the products and quantities to be sold by the Group to Tong Ren Tang Group shall be determined by the parties according to market conditions and stated in the individual implementation agreement.

Pricing Policy: Under the renewed Distribution Framework Agreement, the price of the products to be sold by the Group to Tong Ren Tang Group shall not be lower than that charged by the Group to other independent third parties and shall be determined in accordance with a reasonable cost plus a fair and reasonable profit margin: (i) the reasonable cost shall be determined by reference to the cost of the raw materials, the cost of labour and the manufacturing expense, etc.; and (ii) the profit margin shall be determined by reference to the prevailing market and the then market price for comparable products in the related industry, and the average gross profit rate of the products of the Group in the past years (approximately 50%).

Payment of the Fees: Payment arrangement will be negotiated by the parties and stated in the individual implementation agreement, but shall be the same as the arrangement with other independent third parties. The payment shall be settled in cash or by acceptance bill, and the account period is usually between 30 days and 180 days.

Implementation Agreement:

During the term of the renewed Distribution Framework Agreement, members of the Group and members of Tong Ren Tang Group will enter into, from time to time and as necessary, individual implementation agreement for each of the specific transactions contemplated under the renewed Distribution Framework Agreement, including such implementation agreement entered into during the term of the existing Distribution Framework Agreement which has an expiring date within the term of the renewed agreement.

Any such implementation agreement shall be within the ambit of the renewed Distribution Framework Agreement and the relevant annual caps for the continuing connected transactions contemplated thereunder.

The terms of the renewed Distribution Framework Agreement have no material difference from those of the original Distribution Framework Agreement.

Annual Caps

Historical Transaction Amount

Historical transaction amount under the Distribution Framework Agreement for the two years ended 31 December 2018 and for the eight months ended 31 August 2019 is set out below:

	Year ended 31 December 2017 (RMB million)	Year ended 31 December 2018 (RMB million)	Eight months ended 31 August 2019 (RMB million)
Historical Transaction Amount	925.238	1,078.396	638.432

Historical Annual Caps

The annual caps for the transactions contemplated under the Distribution Framework Agreement for the three years ending 31 December 2019 are set out below:

	Year ended 31 December 2017 (RMB million)	Year ended 31 December 2018 (RMB million)	Year ending 31 December 2019 (RMB million)
Historical Annual Caps	1,300	1,550	1,850

The Directors have been monitoring the transaction amount contemplated under the Distribution Framework Agreement, and for the two years ended 31 December 2018, the annual cap for each year has not been exceeded. As at the date of this announcement and for the year ending 31 December 2019, the annual cap for the transactions contemplated under the Distribution Framework Agreement for the year ending 31 December 2019 has not been and is not expected to be exceeded.

Proposed Annual Caps

The proposed annual caps for the transactions contemplated under the renewed Distribution Framework Agreement for the three years ending 31 December 2022 are set below:

	Year ending 31 December 2020 <i>(RMB million)</i>	Year ending 31 December 2021 <i>(RMB million)</i>	Year ending 31 December 2022 <i>(RMB million)</i>
Expected Annual Caps	1,300	1,500	1,700

The above expected annual caps were determined with reference to the historical transaction figures as listed above and after taking into consideration the following factors:

- (i). In light of the historical transaction amounts for the two years ended 31 December 2018 and the eight months ended 31 August 2019, as well as the expected amount of the Group's future demand, compared with the annual caps for the three years ending 31 December 2019, the Company appropriately lowered the annual caps for the three years ending 31 December 2022 to better meet the transaction amount. The annual caps for the three years ending 31 December 2022 was lowered by 30%, 19% and 8% respectively compared with the 2019 annual caps;
- (ii). Under the Distribution Framework Agreement, the actual transaction amount for the year ended 31 December 2018 increased by about 17% compared with that of 2017. With the initiation of Daxing Branch and Tong Ren Tang Technologies Tangshan, the production capacity of the Group will increase gradually in the future and the production volume will increase with the commencement of production thereof; it is expected that the actual transaction amount under the renewed Distribution Framework Agreement will continue to grow annually in the next three years;
- (iii). In the past five years, the Group's total sales revenue has increased at a compound annual growth rate of about 8% and its net profit at a compound annual growth rate of about 10%. The number of products of the Group with sales amount exceeding RMB5 million has increased year by year, reaching 53 as of 31 December 2018, and the species group has continued to expand. In the future, the Company will continue to focus on modern traditional Chinese medicine, vigorously cultivate potential species, further optimize the product structure of Chinese patent medicine, and strive to meet the demand for various drugs, so as to enhance the market competitive advantage of the Company's products. Meanwhile, the Company will promote subsidiaries to rely on their own professional positioning, achieve in-depth development, and constantly expand the product fields and product types. Therefore, the Company expects that the transaction amount to be conducted under the renewed Distribution Framework Agreement will also continue to grow;

- (iv). It is expected that the expansion of the sales network of the "Tong Ren Tang" brand of Tong Ren Tang Group will also lead to an increase in transaction volume under the renewed Distribution Framework Agreement. As of 31 December 2018, for Tong Ren Tang Ltd. alone, it has more than 800 "Tong Ren Tang" brand retail pharmacies, increasing by 15% compared with that in the same period last year. The Group will continue to make full use of the brand advantages, professional and standardized services and customer resources of the "Tong Ren Tang" brand sales network to promote interactive marketing with consumers, thus driving the growth of terminal sales. Meanwhile, the increase in the number of members of Tong Ren Tang Group due to any potential new investments that Tong Ren Tang Group may make in the next three years will increase the transaction volume between the Group and Tong Ren Tang Group under the renewed Distribution Framework Agreement; and
- (v). A buffer has been included for the estimated amount of sales of products by the Group under the renewed Distribution Framework Agreement for any unexpected increase in the aforesaid amount in the next three years.

Reasons for and benefit of renewal of the Distribution Framework Agreement

Tong Ren Tang Holdings, with its subsidiaries and associates located in the PRC, has a sales network providing a wide coverage. The Directors consider that the utilisation of the sales network of Tong Ren Tang Group to distribute the products of the Group will give full play to the advantage of the brand and resources owned by Tong Ren Tang Group and expand the market share of the Group, hence is beneficial to the development of the business of the Group.

The Directors (excluding the independent non-executive Directors, who shall form their view in the circular after considering the advice from the independent financial adviser) are of the view that the renewed Distribution Framework Agreement was entered into on normal commercial terms, and the terms and conditions therein as well as the annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole.

Measures of Internal Control

To ensure the Group's conformity with the pricing policies in relation to the continuing connected transactions contemplated under the renewed Distribution Framework Agreement, the Company adopts the following internal control policies for its daily operation:

- (i). after renewing Distribution Framework Agreement, the continuing connected transactions contemplated thereunder shall be strictly in compliance with the approved terms and conditions. Specific implementation agreements of the renewed Distribution Framework Agreement shall be performed in strict accordance with pricing policies set out in the renewed Distribution Framework Agreement. If revision of such terms and conditions is required due to change of actual situation, it is required to re-perform appropriate approval process;

- (ii). the relevant business departments of the Company will continuously monitor the pricing terms, receipt arrangements and actual transaction amount of each of the specific implementation agreements relating to the renewed Distribution Framework Agreement, and the audit department of the Company will review the implementation of the connected transaction management system of the Company in the assessment of the internal control system every half year, and conduct sampling review of the above information, so as to ensure all transactions under the renewed Distribution Framework Agreement conform with the connected transaction management system of the Company and ensure the relevant transactions are entered into on normal commercial terms or better and are fair and reasonable, the terms and conditions available to the Group are no less favorable than those available to independent third parties, and such transactions are carried out pursuant to the terms of the renewed Distribution Framework Agreement;
- (iii). with the relatively stable price of the majority of the Chinese patent medicine products, the sales department of the Company is responsible for monitoring, collecting and evaluating the market data on a quarterly basis, including but not limited to the prevailing market and the then market price for comparable products in the related industry, which is subject to the preliminary investigation by the sales personnel and the final review by the sales manager. Under the circumstances such as the then market price for the comparable products recorded significant increases or decreases as compared with the price of the specific product under the renewed Distribution Framework Agreement as set by the Company, the sales department or pricing department of the Company will put forward the proposal of price adjustment, which is subject to the preliminary approval by the deputy general manager of the Company in charge of sales and the final review and approval by the board of managers after the research and discussion of the joint meeting held by production, sales, pricing, financial departments and other relevant departments of the Company;
- (iv). the financial department of the Company is responsible to collect and total the transaction amount of the Group's continuing connected transactions on a monthly basis based on the respective transaction amount reported by the relevant business departments, and is responsible to prepare the summary sheet of the Group's continuing connected transactions. Relevant business departments, if discover any imminent or possible exceeding of the annual caps of any continuing connected transactions, shall report as soon as possible to the financial department and the securities affairs office of the Company. If the relevant business departments confirm the necessity to revise the annual caps, they shall make the application regarding the revision of annual caps, including but not limited to the amount and composition of the revised annual caps as well as the basis for adjustment, and then submit the application to the board of managers of the Company for review and discussion after obtaining the approval of the head of business. The Board or the shareholders' general meeting will finally decide whether to revise the annual caps of relevant continuing connected transactions and proceed with the relevant disclosure procedures. Before completion of all approval and disclosure procedures, the person in charge of the relevant business departments involved in the continuing connected transactions shall ensure that the transaction amounts do not exceed the relevant annual caps;
- (v). pursuant to the connected transaction management rules of the Company, the Company will implement, amend and improve the relevant rules and the requirements, and specify that the subsidiaries of the Company will comply with the above-mentioned pricing policies in respect of the continuing connected transactions contemplated under the renewed Distribution Framework Agreement;

- (vi).the independent non-executive Directors have reviewed and will continue to review the continuing connected transactions under the renewed Distribution Framework Agreement to ensure all transactions contemplated thereunder are entered into on normal commercial terms or better and are fair and reasonable the terms and conditions available to the Group are no less favorable than those available to independent third parties, and such transactions are carried out pursuant to the terms of the renewed Distribution Framework Agreement; and
- (vii). the auditors of the Company will also conduct an annual review on the pricing and annual caps of such continuing connected transactions.

Taking into account of: (i) the above methods and procedures are necessary components of an internal control system, including designated department and responsible officer, clear approval process, monitoring system and detailed and explicit assessment criteria; and (ii) the above mentioned review procedures and approval process against the explicit assessment criteria can ensure that the transactions will be executed in compliance with the pricing principles stipulated in the renewed Distribution Framework Agreement, the Directors are of the view that such methods and procedures can ensure and safeguard that the transactions contemplated under the renewed Distribution Framework Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders as a whole.

PROPOSED RENEWAL OF THE MASTER PROCUREMENT AGREEMENT

Major Terms of the Renewed Master Procurement Agreement

- Renewal Date:** 16 October 2019
- Parties:** (i) the Company
(ii) Tong Ren Tang Holdings
- Term of the Agreement:** Subject to the approval by the Independent Shareholders, the renewed Master Procurement Agreement is for a term of three years from 1 January 2020 to 31 December 2022.
- Principal Terms and Conditions:** Pursuant to the renewed Master Procurement Agreement:
- The Company agreed that the Group may, from time to time, procure the Relevant Products from members of Tong Ren Tang Group for the purpose of its production, sale and distribution.
 - Tong Ren Tang Holdings agreed that Tong Ren Tang Group as non-exclusive supplier of the Group, any member of Tong Ren Tang Group may, from time to time, supply the Relevant Products to the Group.
 - Details of the Relevant Products and quantities to be procured by the Group from Tong Ren Tang Group shall be determined by the parties according to market conditions and stated in the individual implementation agreement.

Pricing Policy:

The price to be paid for the Relevant Products procured by the Group from the Tong Ren Tang Group shall be determined in accordance with the following principles:

- provided that the Relevant Products satisfy the Pharmacopoeia of the People's Republic of China standard and the internal quality standard of the Company, and under the premise of equal quality, the price shall be negotiated and agreed by the parties based on the Market Price for procurement with fair market competition and public offer, which shall be determined with reference to the prevailing market price of comparable products negotiated and provided by at least two independent suppliers in the same or surrounding areas;
- if the Relevant Products are only available from specific suppliers due to content, special requirement or market resource limitations, reference shall be made to the price offer of suppliers and book comparable price; and
- under the premise of equal quality, the price to be paid by the Group for the procurement of the Relevant Products shall not be higher than that available from independent third parties for similar products, or higher than the Market Price, whichever is the lower.

Payment of the Fees:

Payment arrangement will be negotiated by the parties and stated in the individual implementation agreement, but shall be the same as the arrangement with other independent third parties. The payment of most products is made in cash or by acceptance bill between 90 to 180 days after the obtaining of goods' ownerships by the Company and the issuance of value-added tax invoice.

Implementation Agreement:

During the term of the renewed Master Procurement Agreement, members of the Group and members of Tong Ren Tang Group will enter into, from time to time and as necessary, individual implementation agreement for each of the specific transactions contemplated under the renewed Master Procurement Agreement, including such implementation agreement entered into during the term of the existing Master Procurement Agreement which has an expiring date within the term of the renewed agreement.

Any such implementation agreement shall be within the ambit of the renewed Master Procurement Agreement and the relevant annual caps for the continuing connected transaction contemplated thereunder.

The terms of the renewed Master Procurement Agreement have no material difference from those of the original Master Procurement Agreement.

Annual Caps

Historical Transaction Amount

Historical transaction amount under the Master Procurement Agreement for the two years ended 31 December 2018 and for the eight months ended 31 August 2019 is set out below:

	Year ended 31 December 2017 <i>(RMB million)</i>	Year ended 31 December 2018 <i>(RMB million)</i>	Eight months ended 31 August 2019 <i>(RMB million)</i>
Historical Transaction Amount	118.972	146.224	133.298

Historical Annual Caps

The annual caps for the transactions contemplated under the Master Procurement Agreement for the three years ending 31 December 2019 are set out below:

	Year ended 31 December 2017 <i>(RMB million)</i>	Year ended 31 December 2018 <i>(RMB million)</i>	Year ending 31 December 2019 <i>(RMB million)</i>
Historical Annual Caps	240	270	300

The Directors have been monitoring the transaction amount contemplated under the Master Procurement Agreement, and for the two years ended 31 December 2018, the annual cap for each year has not been exceeded. As at the date of this announcement and for the year ending 31 December 2019, the annual cap for the transactions contemplated under the Master Procurement Agreement for the year ending 31 December 2019 has not been and is not expected to be exceeded.

Proposed Annual Caps

The proposed annual caps for the transactions contemplated under the renewed Master Procurement Agreement for the three years ending 31 December 2022 are set below:

	Year ending 31 December 2020 <i>(RMB million)</i>	Year ending 31 December 2021 <i>(RMB million)</i>	Year ending 31 December 2022 <i>(RMB million)</i>
Expected Annual Caps	270	320	370

The above expected annual caps were determined with reference to the historical transaction figures as listed above and after taking into consideration the following factors:

- (i). The historical transaction amount for the two years ended 31 December 2018 and the eight months ended 31 August 2019, as well as the annual caps for the three years ending 31 December 2019. The actual transaction amount under the Master Procurement Agreement for the year ended 31 December 2018 increased by about 23% compared with that in 2017. The actual transaction amount for the eight months ended 31 August 2019 under the Master Procurement Agreement was RMB133.298 million, exceeding the actual transaction amount for the year ended 31 December 2017 and accounting for about 91% of RMB146.224 million, being the annual actual amount of 2018 and increasing by 52% compared with the actual transaction amount in the same period of 2018 of RMB87.582 million. The Company expects that the actual transaction amount under the renewed Master Procurement Agreement in the next three years will also keep increasing annually;
- (ii). In the past five years, the Group's total sales revenue has increased at a compound annual growth rate of about 8% and its net profit at a compound annual growth rate of about 10%. In addition, the annual compound growth rate of the Group's total procurement amount in the past three years was approximately 13%, which is expected to continue to grow in the future;
- (iii). With the gradual release of production capacity in the new production bases including Daxing Branch and Tong Ren Tang Technologies Tangshan, it is expected that future production will continue to grow. Meanwhile, it is expected that the expansion of the sales network of the "Tong Ren Tang" brand of Tong Ren Tang Group will lead to an increase in the sales of the Group's products. Therefore, the output of the Group's products will also increase, and the procurement volume will also increase;
- (iv). The Group sets strict standards on the choice of raw materials, and the traditional Chinese medicine products produced by Tong Ren Tang Group can better meet the Group's needs, which will also lead to an increase in the Group's procurement of products from Tong Ren Tang Group. Meanwhile, the Group will continue to implement strategic reserves of some Chinese medicine raw materials for the continuous development of potential species and the demand for some scarce Chinese medicine raw materials; and
- (v). A buffer has been included for the estimated amount of procurement of the Relevant Products by the Group under the renewed Master Procurement Agreement for any unexpected increase in the aforesaid amount in the next three years. For example, it is expected that Tong Ren Tang Group will continuously expand the scope and scale of production and operation of traditional Chinese medicine products to ensure its long-term development. Furthermore, the increase in the number of members of Tong Ren Tang Group due to any new investments that Tong Ren Tang Group may make in the next three years will increase the transaction volume between the Group and Tong Ren Tang Group under the renewed Master Procurement Agreement.

Reasons for and benefit of renewal of the Master Procurement Agreement

Tong Ren Tang Holdings owns a subsidiary that specialises in the Chinese medicinal raw materials, which provides variable Chinese medicinal raw materials with good quality. Meanwhile, some of its subsidiaries in China own their own production facilities for medicinal raw materials in local Chinese medicinal raw materials origins and have extensive experience in procuring Chinese medicinal raw materials and a broad customer base. Since resources of suppliers or qualifications of several Chinese medicinal raw materials are limited, procurement of such raw materials by the Group from Tong Ren Tang Group which owns such resources and qualifications will secure the quality of raw materials procured by the Group, and ensure the stability of production and supply of the products of the Group. In addition, Tong Ren Tang Holdings also owns subsidiaries which are engaged in the production and sales of Chinese Medicine products. Therefore, the procurement of such products by the Group from Tong Ren Tang Group for further production or distribution by the Group is beneficial to the production and the development of the business of distribution of Chinese Medicine products of the Group.

The Directors (excluding the independent non-executive Directors, who shall form their view in the circular after considering the advice from the independent financial adviser) are of the view that the renewed Master Procurement Agreement was entered into on normal commercial terms, and the terms and conditions therein as well as the annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole.

Measures of Internal Control

To ensure the Group's conformity with the pricing policies in relation to the continuing connected transactions contemplated under the renewed Master Procurement Agreement, the Company adopts the following internal control policies for its daily operation:

- (i). after renewing Master Procurement Agreement, the continuing connected transactions contemplated thereunder shall be strictly in compliance with the approved terms and conditions. Specific implementation agreements of the renewed Master Procurement Agreement shall be performed in strict accordance with pricing policies set out in the renewed Master Procurement Agreement. If revision of such terms and conditions is required due to change of actual situation, it is required to re-perform appropriate approval process;
- (ii). the relevant business departments of the Company will continuously monitor the pricing terms and actual transaction amount of each of the specific implementation agreements relating to the renewed Master Procurement Agreement, the financial department will arrange payment in accordance with the procurement agreement and payment policies, and the audit department of the Company will review the implementation of the connected transaction management system of the Company in the assessment of the internal control system every half year, and conduct sampling review of the above information, so as to ensure all transactions under the renewed Master Procurement Agreement conform with the connected transaction management system of the Company and ensure the relevant transactions are entered into on normal commercial terms or better and are fair and reasonable, the terms and conditions available to the Group are no less favorable than those available to independent third parties, and such transactions are carried out pursuant to the terms of the renewed Master Procurement Agreement;

- (iii).the procurement department of the Company are responsible for regularly monitoring, collecting and evaluating the market data of common bulk raw materials, including but not limited to the prevailing market and the then market price for comparable products in the related industry. Under the circumstances such as the then market price for the comparable products increases by more than 30% as compared with the procurement price of the Company last year , the procurement department of the Company will submit the written price raising application as reviewed and signed by the executive in charge to the pricing department, and the pricing department will review the relevant materials, consult the opinions of the relevant departments and form their opinions on price inquiry, price determination and cost and profit influence, etc.. The chief accounting officer will review such opinions and submit to the board of managers, which will finally approve and implement such opinions;
- (iv).as for material procurement or procurement of new variety and other issues, the procurement department will organize the production department, financial department, audit department, quality control department and other relevant departments to research, discuss and confirm the feasibility (through public bidding if needed) and, when necessary, form joint research group to conduct on-site market investigation and prepare research report and opinions, which is subject to the review and approval of the board of manager of the Company;
- (v). the financial department of the Company is responsible to collect and total the transaction amounts of the Group's continuing connected transactions on a monthly basis based on the respective transaction amounts reported by the relevant business departments, and is responsible to prepare the summary sheet of the Group's continuing connected transactions. Business departments, if discover any imminent or possible exceeding of the annual caps of any continuing connected transactions, shall report as soon as possible to the financial department and the securities affairs office of the Company. If the relevant business departments confirm the necessity to revise the annual caps, they shall make the application regarding the revision of annual caps, including but not limited to the amount and composition of the revised annual caps as well as the basis for adjustment, and then submit the application to the board of managers of the Company for review and discussion after obtaining the approval of the head of business. The Board or the shareholders' general meeting will finally decide whether to revise the annual caps of relevant continuing connected transactions and proceed with the relevant disclosure procedures. Before completion of all approval and disclosure procedures, the person in charge of the relevant business departments involved in the continuing connected transactions shall ensure that the transaction amounts do not exceed the relevant annual caps;
- (vi).pursuant to the connected transaction management rules of the Company, the Company will implement, amend and improve the relevant rules and the requirements, and specify that the subsidiaries of the Company comply with the above-mentioned pricing policies in respect of the continuing connected transactions contemplated under the renewed Master Procurement Agreement;
- (vii). the independent non-executive Directors have reviewed and will continue to review the continuing connected transactions under the renewed Master Procurement Agreement to ensure all transactions contemplated thereunder are entered into on normal commercial terms or better and are fair and reasonable, the terms and conditions available to the Group are no less favorable than those available to independent third parties, and such transactions are carried out pursuant to the terms of the renewed Master Procurement Agreement; and
- (viii).the auditors of the Company will also conduct an annual review on the pricing and annual caps of such continuing connected transactions.

Taking into account of: (i) the above methods and procedures are necessary components of an internal control system, including designated department and responsible officer, clear approval process and monitoring system and detailed and explicit assessment criteria; and (ii) the above mentioned review procedures and approval process against the explicit assessment criteria can ensure that the transactions will be executed in compliance with the pricing principles stipulated in the renewed Master Procurement Agreement, the Directors are of the view that such methods and procedures can ensure and safeguard that the transactions contemplated under the Master Procurement Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders as a whole.

HONG KONG LISTING RULES IMPLICATIONS

Tong Ren Tang Holdings is the ultimate controlling shareholder of the Company and is therefore a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated under each of the CCT Framework Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios in respect of the estimated annual caps for the continuing connected transactions under the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement respectively exceed 5%, both the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement, as well as the proposed annual caps for the continuing connected transactions contemplated thereunder are subject to independent shareholders' approval requirement in addition to reporting, annual review and announcement requirements under Chapter 14A of the Hong Kong Listing Rules.

An extraordinary general meeting of the Company will be convened to seek the approval of the Independent Shareholders in this regard. Tong Ren Tang Holdings and its associates will abstain from voting in respect of the relevant resolutions at the extraordinary general meeting.

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in relation to the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement, as well as the proposed annual caps for the continuing connected transactions contemplated thereunder, and an independent financial adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders.

A circular containing, among others, details of the Distribution Framework Agreement and the Master Procurement Agreement, as well as the proposed annual caps for the continuing connected transactions contemplated thereunder, a letter from the Independent Board Committee and the advice from the independent financial adviser to the Independent Board Committee and Independent Shareholders, together with a notice convening the extraordinary general meeting of the Company, will be dispatched to the Shareholders on or before 31 October 2019.

None of the Directors has a material interest in the transactions contemplated under each of the CCT Framework Agreements.

GENERAL INFORMATION ON THE PARTIES

The Company

The Company is principally engaged in the manufacturing and sale of Chinese medicine.

Tong Ren Tang Holdings

Tong Ren Tang Holdings is engaged in the processing and manufacture of Chinese patent medicine and Chinese medicinal decoction pieces, sales of Chinese medicinal, Chinese patent medicine and Chinese medicinal decoction pieces, medical food, warehousing and transportation, etc..

DEFINITIONS

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

"associate(s)"	has the meaning ascribed under the Hong Kong Listing Rules
"Board"	means the board of directors of the Company
"CCT Framework Agreement(s)"	means the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement
"Company"	means Tong Ren Tang Technologies Co. Ltd. (北京同仁堂科技發展股份有限公司), a joint stock company incorporated in the PRC with limited liability and the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange
"controlling shareholder"	has the meaning ascribed to it under the Hong Kong Listing Rules
"Daxing Branch"	means the Daxing branch of the Company located in Da Xing Bio-Pharma Industrial Base of Zhongguancun Technology Park District, Beijing
"Director(s)"	means the directors of the Company
"Distribution Framework Agreement"	means the Distribution Framework Agreement entered into between the Company and Tong Ren Tang Holdings on 15 April 2008, and renewed by the parties on 18 January 2011, 10 October 2013, 29 September 2016 and 16 October 2019, which is still subject to the approval by the Independent Shareholders, and pursuant to which the Group may sell its products to Tong Ren Tang Group, and Tong Ren Tang Group, as non-exclusive distributor of the Group, may purchase products from the Group and then distribute the same to retailers or end-users

"Group"	means the Company and its subsidiaries
"Hong Kong"	means the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	means the Rules Governing the Listing of Securities on Hong Kong Stock Exchange
"Hong Kong Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"Independent Board Committee"	means the independent board committee comprising all independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Ms. Chan Ching Har, Eliza and Mr. Zhan Yuan Jing, which was established to advise the Independent Shareholders in relation to the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement, as well as the proposed annual caps for the respective continuing connected transactions contemplated thereunder
"Independent Shareholders"	means Shareholders other than Tong Ren Tang Holdings and its associates
"Master Procurement Agreement"	means the Master Procurement Agreement entered into between the Company and Tong Ren Tang Holdings on 28 February 2011 and renewed by the parties on 10 October 2013, 29 September 2016 and 16 October 2019, which is still subject to the approval by the Independent Shareholders, and pursuant to which the Group agreed to procure from Tong Ren Tang Group and Tong Ren Tang Group agreed to supply to the Group, the Relevant Products for the Group's production, sale and distribution
"PRC"	means the People's Republic of China, which for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Relevant Products"	means the raw materials, semi-finished products and finished products supplied by Tong Ren Tang Group to the Group under the renewed Master Procurement Agreement, collectively
"RMB"	means Renminbi, the lawful currency of the PRC
"Shareholder(s)"	means the shareholder(s) of the Company

"Tong Ren Tang Holdings"	means China Beijing Tong Ren Tang Group Co., Ltd. (中國北京同仁堂(集團)有限責任公司), a state-owned enterprise established in the PRC and the ultimate controlling shareholder of the Company who is directly and indirectly interested in 47.59% equity interest in the Company
"Tong Ren Tang Group"	means Tong Ren Tang Holdings and its subsidiaries and associates (excluding the Group)
"Tong Ren Tang Ltd."	means Beijing Tong Ren Tang Company Limited (北京同仁堂股份有限公司), a joint stock limited company established in the PRC, whose shares are listed on the Shanghai Stock Exchange, and is the controlling shareholder of the Company
"Tong Ren Tang Technologies Tangshan"	means Beijing Tong Ren Tang Technologies (Tangshan) Co., Ltd, located in Yutian County, Tangshan City, Hebei Province, which is a wholly-owned subsidiary of the Company

By order of the Board
Tong Ren Tang Technologies Co. Ltd.
Gu Hai Ou
Chairman of the Board

Beijing, the PRC
16 October 2019

As at the date of this announcement, the Board comprises Mr. Gu Hai Ou, Mr. Huang Ning, Mr. Wu Le Jun, Ms. Wu Qian, Mr. Wang Yu Wei and Ms. Fang Jia Zhi as executive Directors, Mr. Ting Leung Huel, Stephen, Ms. Chan Ching Har, Eliza and Mr. Zhan Yuan Jing as independent non-executive Directors. .