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If you have sold or transferred all your shares in **Tong Ren Tang Technologies Co. Ltd.**, you should at once hand this circular and the accompanying form of proxy and the reply slip to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.



Tong Ren Tang Technologies Co. Ltd.

北京同仁堂科技發展股份有限公司

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

(Stock Code: 1666)

**PROPOSED RENEWAL OF
CONTINUING CONNECTED TRANSACTIONS
AND
NOTICE OF EGM**

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



Innovax Capital Limited

A letter from the Board is set out on pages 5 to 22 of this circular. A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 23 to 24 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 25 to 48 of this circular.

A notice convening the EGM to be held at 9:30 a.m. on Monday, 16 December 2019 in No. 20 Nansanhuan Zhonglu, Fengtai District, Beijing, the PRC, is set out on pages 55 to 57 of this circular.

If you intend to appoint a proxy to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof, and deposit it with, (i) for holders of H Shares, Hong Kong Registrars Ltd., the H Share registrar and transfer office of the Company in Hong Kong, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong; and (ii) for holders of Domestic Shares, the office of the Company, at No. 20, Nansanhuan Zhonglu, Fengtai District, Beijing, the PRC. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so desire.

31 October 2019

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DEFINITIONS

In this circular, 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
“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 director(s) 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
“Domestic Share(s)”	means the ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is/are subscribed for in RMB
“EGM”	means the extraordinary general meeting of the Company to be convened at 9:30 a.m. on Monday, 16 December 2019 in No. 20 Nansanhuan Zhonglu, Fengtai District, Beijing, the PRC, to consider and, if thought fit, to approve 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
“Group”	means the Company and its subsidiaries

DEFINITIONS

“H Share(s)”	means the ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is/ are listed on the Hong Kong Stock Exchange and subscribed for in Hong Kong dollars
“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 the Hong Kong Stock Exchange (as amended from time to time)
“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 Financial Adviser” or “Innovax Capital”	means Innovax Capital Limited, a licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and 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
“Latest Practicable Date”	means 25 October 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein

DEFINITIONS

“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 may procure from Tong Ren Tang Group and Tong Ren Tang Group may supply to the Group the Relevant Products for the Company’s production, sale and distribution
“Model Code”	means the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
“PRC”	means the People’s Republic of China, which for the purpose of this circular 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
“SFO”	means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholder(s)”	means the shareholder(s) of the Company
“Supervisor(s)”	means the supervisor(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)

DEFINITIONS

“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 Chinese Medicine”	means Beijing Tong Ren Tang Chinese Medicine Company Limited (北京同仁堂國藥有限公司), a subsidiary of the Company which was incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Main Board of the Hong Kong Stock Exchange
“Tong Ren Tang Technologies Tangshan”	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



Tong Ren Tang Technologies Co. Ltd.

北京同仁堂科技發展股份有限公司

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

(Stock Code: 1666)

Executive Directors:

Mr. Gu Hai Ou

Mr. Huang Ning

Mr. Wu Le Jun

Ms. Wu Qian

Mr. Wang Yu Wei

Ms. Fang Jia Zhi

Registered Office:

No.16 Tongji Beilu,

Beijing Economic and Technology

Development Zone,

Beijing, the PRC

Independent Non-executive Directors:

Mr. Ting Leung Huel, Stephen

Ms. Chan Ching Har, Eliza

Mr. Zhan Yuan Jing

Office and Mailing Address:

No. 20 Nansanhuan Zhonglu,

Fengtai District,

Beijing, the PRC

31 October 2019

To the Shareholders

Dear Sir or Madam,

**PROPOSED RENEWAL OF
CONTINUING CONNECTED TRANSACTIONS**

1. INTRODUCTION

Reference is made to the announcement of the Company dated 16 October 2019, in relation to the proposed renewal of continuing connected transactions.

On 16 October 2019, the Company and Tong Ren Tang Holdings renewed the Distribution Framework Agreement and the Master Procurement Agreement, and set the annual caps for the respective continuing connected transactions contemplated thereunder for the three years ending 31 December 2022. Pursuant to the Hong Kong Listing Rules, both of 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 are still subject to the approval by the Independent Shareholders.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) detailed information regarding the proposed renewal of the Distribution Framework Agreement and the Master Procurement Agreement as well as the proposed annual caps for the respective continuing connected transactions contemplated thereunder for the three years ending 31 December 2022; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from Innovax Capital to the Independent Board Committee and the Independent Shareholders; and (iv) a notice convening the EGM.

2. 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, members 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.

LETTER FROM THE BOARD

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 existing Distribution Framework Agreement.

LETTER FROM THE BOARD

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 Latest Practicable Date 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.

LETTER FROM THE BOARD

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;

LETTER FROM THE BOARD

- (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) 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:

- (a) after renewing Distribution Framework Agreement, the continuing connected transactions contemplated thereunder shall be strictly in compliance with the approved terms and conditions. Individual 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;

LETTER FROM THE BOARD

- (b) the relevant business departments of the Company will continuously monitor the pricing terms, receipt arrangements and actual transaction amount of each of the individual 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 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;
- (c) 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;
- (d) 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;

LETTER FROM THE BOARD

- (e) 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;
- (f) 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
- (g) 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 abovementioned 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.

LETTER FROM THE BOARD

3. 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^(Note) 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, members 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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

Note: 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. 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 scope of the products sold by the Group to the members of Tong Ren Tang Group under the renewed Distribution Framework Agreement is different from the Relevant Products under the renewed Master Procurement Agreement.

The terms of the renewed Master Procurement Agreement have no material difference from those of the existing 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 (RMB million)	Year ended 31 December 2018 (RMB million)	Eight months ended 31 August 2019 (RMB million)
Historical Transaction Amount	118.972	146.224	133.298

LETTER FROM THE BOARD

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 (RMB million)	Year ended 31 December 2018 (RMB million)	Year ending 31 December 2019 (RMB million)
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 Latest Practicable Date 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 (RMB million)	Year ending 31 December 2021 (RMB million)	Year ending 31 December 2022 (RMB million)
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 of 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

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

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) 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:

- (a) 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;
- (b) 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;
- (c) 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

LETTER FROM THE BOARD

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;

- (d) 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 managers of the Company;
- (e) 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. 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;
- (f) 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;
- (g) 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

LETTER FROM THE BOARD

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

- (h) 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 abovementioned 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.

4. 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 renewed Distribution Framework Agreement and the renewed Master Procurement Agreement 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.

None of the Directors has a material interest in the above continuing connected transactions.

LETTER FROM THE BOARD

5. INFORMATION ON PARTIES TO THE CONTINUING CONNECTED TRANSACTIONS

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..

6. EGM

A notice convening the EGM, at which ordinary resolutions will be submitted to the Shareholders to consider and, if thought fit, to approve the proposed 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, is set out on pages 55 to 57 of this circular.

Votes on the resolutions to be proposed at the EGM shall be taken by way of poll. In accordance with the Hong Kong Listing Rules, Tong Ren Tang Holdings and its associates will abstain from voting on the resolution to be proposed at the EGM 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. As at the Latest Practicable Date, Tong Ren Tang Holdings and its associates, directly and indirectly, hold 609,480,000 Domestic Shares (representing approximately 47.59% of the issued share capital of the Company) with voting right.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, other than Tong Ren Tang Holdings and its associates, no other connected person of the Company, Shareholder or their respective associate has a material interest in the transactions contemplated under the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement and is required to abstain from voting on the relevant resolution at the EGM.

If you intend to appoint a proxy to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof, and deposit it with, (i) for holders of H Shares, Hong Kong Registrars Ltd., the H Share registrar and transfer office of the Company in Hong Kong, at 17M Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong; and (ii) for holders of Domestic Shares, the office of the Company, at No. 20, Nansanhuan Zhonglu,

LETTER FROM THE BOARD

Fengtai District, Beijing, the PRC. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so desire.

The register of members of the Company will be closed from Saturday, 16 November 2019 to Monday, 16 December 2019 (both days inclusive), during which time no transfer of Shares will be registered. In order to be qualified for attending and voting at the EGM, all transfer documents of the holders of H Shares together with the relevant share certificate must be lodged with Hong Kong Registrars Ltd., the Company's H Share registrar and transfer office in Hong Kong, at Shops 1712–1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 15 November 2019.

7. RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out in this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders in relation to the 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; and (ii) the letter from the Independent Financial Adviser set out in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the renewed Distribution Framework Agreement, the renewed Master Procurement Agreement and the proposed annual caps for the respective continuing connected transactions contemplated thereunder, as well as the principal factors and reasons taken into account by the Independent Financial Adviser in arriving at its advice.

The Directors (excluding the independent non-executive Directors) are of the view that the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement were entered into on normal commercial terms, and the terms and conditions therein as well as the proposed annual caps for the respective continuing connected transactions contemplated thereunder are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors (excluding the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

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



Tong Ren Tang Technologies Co. Ltd.

北京同仁堂科技發展股份有限公司

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

(Stock Code: 1666)

31 October 2019

To the Shareholders

Dear Sir or Madam,

**PROPOSED RENEWAL OF
CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated on 31 October 2019 (the “**Circular**”) of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to consider and advise you as to whether, in our opinion, 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 (details of which are set out in the letter from the Board) are fair and reasonable so far as the Independent Shareholders are concerned.

Innovax Capital Limited has been appointed by the Board as the Independent Financial Adviser to advise the Independent Board Committee and Independent Shareholders on the fairness and reasonableness of 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. Details of the advice from Innovax Capital Limited, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 25 to 48 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 5 to 22 of the Circular and the additional information set out in the Appendix.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered (i) the terms and conditions of the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement, (ii) the discussion with the management of the Company about the background to and nature of the continuing connected transactions under the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement, (iii) the reasons for the proposed annual caps and the basis upon which the proposed annual caps have been determined, (iv) the business and financial effects of the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement to the Company, and (v) the interests of the Independent Shareholders and the advice given by the Independent Financial Advisor and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the view that the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement were negotiated on an arm's length basis, were entered into in the ordinary and usual course of business of the Group, will be conducted on normal commercial terms, or on terms no less favorable than those available to or from independent third parties under prevailing local market conditions, and the terms and conditions as well as the proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM so as to approve 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.

Yours faithfully,

For and on behalf of the Independent Board Committee of
Tong Ren Tang Technologies Co. Ltd.

Ting Leung Huel, Stephen Chan Ching Har, Eliza Zhan Yuan Jing
Independent Non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Innovax Capital Limited to the Independent Board Committee and the Independent Shareholders, for the purpose of incorporation into this circular.



31 October 2019

*To the Independent Board Committee and the Independent Shareholders
of Tong Ren Tang Technologies Co. Ltd.*

Dear Sirs,

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser (“**IFA**”) to the Independent Board Committee and the Independent Shareholders in relation to the renewed distribution framework agreement (“**Renewed Distribution Framework Agreement**”) and the renewed master procurement agreement (“**Renewed Master Procurement Agreement**”) (collectively, “**Framework agreements**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular (the “**Circular**”) dated 31 October 2019 issued by the Company, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

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 the Framework Agreements constitute continuing connected transactions (“**Continuing Connected Transactions**”) of the Company under Chapter 14A of the Hong Kong Listing Rules. As the applicable percentage ratio(s) with respect to the renewed annual caps (“**Renewed Annual Caps**”) for the Framework Agreements are more than 5% and the annual consideration is expected to exceed HK\$10,000,000, the transactions under these contracts will be subject to reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all of the three independent non-executive Directors, has been formed to consider whether (i) the terms of the Framework Agreements are on normal commercial terms and in the ordinary and usual course of business of the Group; and (ii) the Continuing Connected Transactions, including the Renewed Annual Caps, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole, and to make recommendations to the Independent Shareholders in respect thereof. We, Innovax Capital Limited, have been appointed as the IFA to advise the Independent Board Committee and the Independent Shareholders in this regard.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

OUR INDEPENDENCE

As at the Latest Practicable Date, we were not connected with the Company or any of its respective substantial shareholders, directors or chief executives, or any of their respective associates and accordingly, are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions. In the last two years, we have not acted as any financial adviser role to the Company. Apart from normal professional fees paid or payable to us in connection with the current appointment as the IFA, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or its subsidiaries or their respective controlling shareholders, Tong Ren Tang Holdings and their respective subsidiaries or their respective controlling shareholders that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent to act as the IFA in respect of the Continuing Connected Transactions.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the management (“**Management**”) of the Company. We have assumed that all information and representations that have been provided by the Directors and the Management, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, the Management (where applicable), which have been provided to us. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts or representations not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Hong Kong Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We, as the IFA, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice. We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information, opinions or representations given or made by or on behalf of the Company, nor conducted any independent in-depth investigation into the business affairs, assets and liabilities or future prospects of the Company, their respective subsidiaries or associates (if applicable) or any of the other parties involved in the Continuing Connected Transactions, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Continuing Connected Transactions.

PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT

In formulating our view on the transactions contemplated under the Framework Agreements, we have taken into consideration the principal factors and reasons as set out below. In reaching our conclusion, we have considered the results of the analysis in light of each other and ultimately reached our opinion based on the results of all analysis taken as a whole.

(A) Background of and reasons for the Continuing Connected Transaction

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

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. As stated in the Letter from the Board, Tong Ren Tang Group has a sales network providing a wide coverage. In addition, Tong Ren Tang Holdings owns a subsidiary that specialise in the Chinese medicinal raw materials, which provide variable Chinese medicinal raw materials with good quality. Meanwhile, some of its subsidiaries in China have their own production facilities for Chinese 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.

To facilitate its business development and operation, the Company entered into the Distribution Framework Agreement with Tong Ren Tang Holdings on 15 April 2008, which was renewed three times by the parties on 18 January 2011, 10 October 2013 and 29 September 2016 each time for a term of three years, pursuant to which the Group can sell its products to Tong Ren Tang Group, and Tong Ren Tang Group can procure products from the Group and then distribute the same to retailers or end-users as non-exclusive distributor of the Group.

In addition, the Company also entered into the Master Procurement Agreement with Tong Ren Tang Holdings on 28 February 2011, which was renewed by the parties two times on 10 October 2013 and 29 September 2016 each time for a term of three years, pursuant to which the Group may procure from Tong Ren Tang Group, and Tong Ren Tang Group may supply to the Group, raw materials, semi-finished products and finished products for the Group's production, sale and distribution.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The existing term of the Distribution Framework Agreement and the Master Procurement Agreement will expire on 31 December 2019. Since the Continuing Connected Transactions shall continue, the Directors propose to seek Independent Shareholders' approval to renew the Framework Agreements and the Continuing Connected Transactions to be contemplated thereunder for a term commencing from 1 January 2020 to 31 December 2022 in order to comply with the continuing connected transaction requirements under the Hong Kong Listing Rules.

As stated in the Letter from the Board, 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.

Through the Renewed Master Procurement Agreement, Tong Ren Tang Group can supply raw materials, semi-finished products and finished products for the Group's production, sale and distribution. As stated in the Letter from the Board, 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 or 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.

Having taken into account of the above and:

1. the Group has established and maintained long-term business relationship with Tong Ren Tang Group;
2. the recurring nature of the transactions under the Framework Agreements, where the Distribution Framework Agreement and the Procurement Framework Agreement has been renewed three times and two times, respectively, and the entering into of the Framework Agreements will enable the Group to continue its business with Tong Ren Tang Group;
3. the Continuing Connected Transactions are in line with the existing business activities of the Group;
4. the extensive sales network of Tong Ren Tang Group will enable the Group to further expand its market share and strengthen its presence in the market;
5. through the Framework Agreements, the Group can secure stable supply of Chinese medicinal raw materials from Tong Ren Tang Group, and ensure the stability of production and supply of the products of the Group; and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. the transactions contemplated under the Framework Agreements shall be conducted on an arm's length basis and on terms that are fair and reasonable to the Group.

We are of the view that the Continuing Connected Transactions are usual and ordinary course of business of the Group, and are in the interests of the Group and the Independent Shareholders as a whole.

(B) Principal terms of the Framework Agreements

1. The Renewed Distribution Framework Agreement

Pursuant to the Renewed Distribution Framework Agreement and subject to the Renewed Annual Caps, the Company agreed that the Group may, from time to time, sell its products to members of Tong Ren Tang Group, and Tong Ren Tang Holdings agreed that Tong Ren Tang Group as the non-exclusive distributors of the Group, any member of Tong Ren Tang Group may, from time to time, procure products from the Group and then distribute the same to retailers and/or end-users.

Based on the terms and conditions of the Renewed Distribution Framework Agreement, the parties will enter into individual implementation agreement to set out, inter alia, the selling price, quantity and specifications of products for each sale transaction in accordance with prevailing market conditions. As stated in the Letter from the Board, the prices 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, with references to:

- the cost of the raw materials, the cost of labour and the manufacturing expenses etc.; and
- the prevailing market and the then market price for comparable products in the related industry, and the average gross profit rate of the Group's products of the Group in the past years of approximately 50%.

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.

2. The Renewed Master Procurement Agreement

Pursuant to the Renewed Master Procurement Agreement and subject to the Renewed Annual Caps, the Company agreed that the Group may, from time to time, procure the raw materials, semi-finished products and finished 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 suppliers of the Group, any member of Tong Ren Tang Group may, from time to time, supply the raw materials, semi-finished products and finished products to the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the terms and conditions of the Renewed Master Procurement Agreement, the parties will enter into separate individual implementation agreement to set out, inter alia, the procurement price, quantity and specifications of products for each procurement transaction in accordance with prevailing market conditions.

As stated in the Letter from the Board, the price to be paid for Chinese medicinal raw materials, semi-finished products and finished 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 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.

3. Our views on the major terms of the Framework Agreements

We have reviewed and compared the principal terms of the Renewed Distribution Framework Agreement and the Renewed Master Procurement Agreement with those in the former Distribution Framework Agreement and the former Master Procurement Agreement entered into in September 2016, noting no material differences.

Shareholders should note that there is no provision in the Framework Agreements requiring the Group to transact with Tong Ren Tang Group. In other words, the Group is not obligated to transact with Tong Ren Tang Group and would only do so if it is in the commercial interests of the Group, and it does not restrict the Group from transacting with any third parties. Therefore, we consider the Framework Agreements provide commercial flexibility to the Group to transact with other customers or suppliers in the event that the Group might not be able to agree with any terms or pricing with Tong Ren Tang Group.

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The above pricing policies in the Renewed Distribution Framework Agreement and the Renewed Master Procurement Agreement have principally been applied to the Continuing Connected Transactions throughout the original and the subsequent renewals of the Framework Agreements and will continue to be applied to the Continuing Connected Transactions under the Framework Agreements.

We have reviewed three sets of copies of implementation agreements and sample transaction documents for both sale and procurement contracts between the Group and both (i) independent third parties; and (ii) Tong Ren Tang Group, in each year/period covering the year ended 31 December 2017 (“**FY2017**”), the year ended 31 December 2018 (“**FY2018**”) and the eight months ended 31 August 2019 (“**8M2019**”), which was selected randomly from the complete sales and procurement listings for the corresponding year/period provided by the Group. Given the significant number of sales and procurement transactions throughout the year. On the sample transaction documents, including sales contracts and procurement contracts and the relevant invoices obtained, we have checked to (i) unit price; (ii) payment terms; and (iii) delivery method, noting the same terms were given to/offered by the independent third parties and the Tong Ren Tang Group. Therefore, we considered that the pricing terms and payment terms of the Group’s products supplied to or procured from Tong Ren Tang Group were no less favourable than that charged to independent third parties and on terms no less favourable than those the Group can obtain from independent third parties.

Taking into account of the above, the internal control measures set forth below and the Framework Agreements does not impose any contractual obligation to the Group to transact with Tong Ren Tang Group, we are of the view that the terms of the Framework Agreements are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(C) Internal Control Measures

As stated in the Letter from the Broad, the Group has the following internal control procedures in place for its daily operation to ensure the Group’s conformity with the pricing policies in relation to the Continuing Connected Transactions contemplated under the Framework Agreements:

- i. after entering into the Framework Agreements, the continuing connected transactions contemplated thereunder shall be strictly in compliance with the approved terms and conditions. Specific implementation agreements of the renewed Framework Agreements shall be performed in strict accordance with pricing policies set out in the renewed Framework Agreements. 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 rules of the Company in the assessment of

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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 favourable than those available to independent third parties, and such transactions are carried out pursuant to the terms of the renewed Distribution Framework Agreement;

- iii. 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 favourable than those available to independent third parties, and such transactions are carried out pursuant to the terms of the renewed Master Procurement Agreement;
- iv. 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 of the Company, which will finally approve and implement such opinions;
- v. 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 managers of the Company;

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- vi. 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 of the Company after the research and discussion of the joint meeting held by production, sales, pricing, financial departments and other relevant departments of the Company;
- vii. 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;
- viii. pursuant to the connected transaction management rules of the Company, the Company will implement, amend and improve the relevant rules and the requirements, and to specify that the subsidiaries of the Company comply with the above-mentioned pricing policies in respect of the continuing connected transactions contemplated under each of the Framework Agreements;
- ix. the independent non-executive Directors have reviewed and will continue to review the continuing connected transactions under each of the Framework Agreements to ensure all transactions contemplated thereunder are entered into on normal commercial terms or better and are fair and reasonable the terms and conditions

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available to the Group are no less favourable than those available to independent third parties, and such transactions are carried out pursuant to the terms of the Framework Agreements; and

- x. the auditors of the Company will also conduct an annual review on the pricing and annual caps of such continuing connected transactions.

Having considered the above, we are of the view that the internal control measures aforementioned are in place to ensure and safeguard the Continuing Connected Transactions contemplated under the Framework Agreements will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its Shareholders as a whole.

(D) The Renewed Annual Caps

The Continuing Connected Transactions are subject to the Hong Kong Listing Rules' requirements and conditions as discussed in detail under the section headed "Reporting requirements and conditions of the Continuing Connected Transactions" below. In particular, the Continuing Connected Transactions are subject to the Renewed Annual Caps.

Sets out below the existing annual caps for the three years ending 31 December 2019 ("Existing Annual Caps") and the Renewed Annual Caps for the three years ending 31 December 2022:

	Existing Annual Caps			Renewed Annual Caps		
	Year ended 31 December			Year ending 31 December		
	2017	2018	2019	2020	2021	2022
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>
Distribution Framework Agreement	1,300	1,550	1,850	1,300	1,500	1,700
Master Procurement Agreement	240	270	300	270	320	370

The Renewed Annual Caps of the Renewed Distribution Framework Agreement for the year ending 31 December 2020 ("FY2020") will be at RMB1,300 million, which represents a decrease of approximately 30% from the existing annual cap for the year ending 31 December 2019 ("FY2019") of RMB1,850 million. The Renewed Annual Caps for the two years ending 31 December 2021 ("FY2021") and 2022 ("FY2022") represent approximately 15% and 13% increase, respectively, from that in the previous year.

The Renewed Annual Caps of the Renewed Master Procurement Agreement for FY2020 represents a 10% decrease from the existing annual cap for FY2019. The Renewed Annual Caps for FY2021 and FY2022 represent approximately 19% and 16% increase, respectively, from that in the previous year.

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1. The Renewed Distribution Framework Agreement

As briefly extracted from the Letter from the Board, the Renewed Annual Caps were determined with reference to the historical transaction figures and after taking into consideration the following factors:

- a. In light of the historical transaction amounts for FY2017, FY2018 and 8M2019, 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;
- b. Under the Distribution Framework Agreement, the actual transaction amount for FY2018 increased by about 17% compared with FY2017. 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;
- c. In the past five years, the Group's total sales revenue has increased at a compound annual 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, in-depth development, and constantly expand the product field 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;
- d. 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

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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

- e. 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.

In assessing whether the Renewed Annual Caps for the Renewed Distribution Framework Agreement are fair and reasonable, we have taken into consideration of the following:

Review of the Group's Historical Figures and Historical Transaction Amounts between the Group and Tong Ren Tang Group and the GMP Certification at the existing and New Production Bases

The tables below set out (i) the historical transaction amounts of the Continuing Connected Transactions for each of FY2017, FY2018 and 8M2019 (the “**Track Record Period**”) and (ii) the Existing Annual Caps for the three years ending 31 December 2019:

	Year ended		Eight months ended	
	31 December		31 August	
	2017	2018	2018	2019
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>
Historical Transaction	925.24	1,078.40	753.72	638.43
Existing Annual Caps	1,300	1,550	1,550	1,850
Utilisation rate (%)	71.2	69.6	72.9 ⁽¹⁾	51.8 ⁽¹⁾

Note:

1. the utilisation rate is calculated by dividing the historical transaction amount for the eight months by the pro-rated annual cap for the same period.

The historical transaction amounts demonstrated a moderate growing trend with an increase of approximately 17% for FY2018 from FY2017 and the historical transaction amounts decreased by 15.3% for 8M2019 compared with the same period in 2018.

The utilisation was stable for FY2017 and FY2018, however, due to the lower historical transaction amount, the utilisation rate is lower for 8M2019 at approximately 51.8%.

In relation to the decrease in the sales transactions amounts and utilisation rate for 8M2019, we have reviewed the 2019 Interim Report, noting the same decreasing trend in overall revenue of the Group from approximately RMB2.8 billion for the six

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months ended 30 June 2018 to approximately RMB2.5 billion for the same period in 2019, representing a decrease of a 11.7%. Such decrease was mainly caused by the drop in revenue from the sales of Chinese medicine products from approximately RMB2.3 billion for the six months ended 30 June 2018 to approximately RMB1.9 billion for the same period in 2019, representing a drop of approximately 17.4%, which was largely in line with the approximately 15.3% decrease in 8M2019 in the sales transactions with Tong Ren Tang Group. As such, the decreasing trend was not specific to the sales transactions under the Distribution Framework Agreement but the overall performance of the Group in 8M2019.

Based on our discussion with the Management and the review of the 2019 Interim Report, the main reason for the low utilisation rate was mainly due to the Group's continuing industrial layout adjustment, during which some species were transferred to new production bases, resulting in a temporary production convergence problem between the old and new production bases. We were given to understand that each product can only be produced in one production base. According to the Pharmaceutical Administration Law of the PRC (中華人民共和國藥品管理法) revised on 24 April 2015, a pharmaceutical manufacturer must obtain a manufacture license of Pharmaceutical Products (藥品生產許可證) (the "License") in advance in order to commence producing a pharmaceutical product in the PRC. At the same time, it must also pass the "Good Manufacturing Practices" ("GMP") certification before the pharmaceutical products produced can be sold in the market. According to the Measures for the Supervision and Administration of Pharmaceutical Production (藥品生產監督管理辦法) issued by the China Food and Drugs Administration on 21 November 2017, the License should include the details of production address based on the actual production address of the pharmaceutical product. If any change in production address is made, the corporation is required to submit an application for approval to the issuing authority of the License 30 days before the actual changes in address. Therefore, in complying with these regulations and procedures, the production of such production lines would be suspended for a period of time.

Based on our review of the 2018 Annual Report, we noted that the Group's construction of two new production base, Daxing Branch and Tong Ren Tang Technologies Tangshan, were completed by the end of 2018. In 2019, the workshops and production lines in Daxing Branch and Tong Ren Tang Technologies Tangshan were in the process of application of the License and GMP certification. In addition, as some production lines in the existing production factory are in the process of GMP re-certification, which normally needs to be renewed every five years, therefore, the production lines in the existing workshop need to undergo renovation. As part of the process required the modification and renovation of the workshops and production lines, the Group therefore suffered from temporary suspension of certain production lines in existing production capacity while the new production capacity was not yet released. As a result, the production progress of certain dosage products such as pills and oral liquid was therefore led to supply suspension in some products such as Jinkui Shenqi Pills and Shengmai Liquor Oral Liquid. We have reviewed the sales summary and the production summary for the six months ended 30 June 2018 and 2019, noting that decreases in both production volume and sales volume of certain dosage products as a result of the aforementioned.

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In the various announcement published in 2019, we further noted that some GMP re-certification at the existing production bases and GMP certification in the new production base in preparation of the transfer of species have been gradually completed where certain GMP certificates were successfully granted. As confirmed with the Company, the process of GMP certification for certain workshops and production lines in the existing and new production bases are still ongoing as at the Latest Practicable Date, thereby still impacting the production capacity for certain production lines.

To this end, as set out in the 2019 Interim Report, the Company actively responded by strengthening the responsibility system for species, improving the awareness of product supply, monitoring the species urgently needed in the market and seasonal species, and strengthening the connection of production processes. The Company also carried out production capacity analysis on individual dosage and species basis, subdivided task indicators, made full use of existing resources, and rationally adjusted production rhythm so that to optimize the current capacity, improve the compatibility between market demand and species supply structure. These are the efforts the Company exerted in making up the shortfall of the species supply.

Upon the completion of the GMP certification of certain workshops and production lines in both the existing and new production bases, the production capacity is expected to gradually resume and expand (upon the successful trial production and the release of capacity in the new production bases) in the next few years.

After considering (i) the lower utilisation rate in 8M2019 at less than 60%; (ii) the GMP certification at existing and new production bases for certain workshops and production lines were still ongoing; (iii) the transition period needed for the transfer of species from the old production base to the new production base, we concur with the Company to decrease the annual cap for FY2020 by approximately 29.7%.

The Growth of Healthcare and Traditional Chinese Medicinal Industry in the PRC

The Chinese government continued to attach great importance to and remained supportive to the Chinese medicine industry, which has brought about new opportunities for development in the industry. Healthcare and pharmaceutical industry remains one of the focus areas of the 13th Five-Year Plan. There will be strategical planning in the promotion of “Healthy China” (健康中國) under the Plan, include improving the healthcare system, as well as increasing the public health awareness and encourage the promotion of Chinese medicines. National Health and Family Planning Commission (the former Ministry of Health) released a blueprint “Healthy China 2030” in October 2016. According to report “Embrace Healthcare Revolution — Strategically moving from volume to value” developed by Deloitte Research and Deloitte China Life Sciences and Healthcare Industry Team about China Healthcare Industry’s current situation and future trends, the “Healthy China

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2030” strategy sets goals on the scale of the healthcare industry, specifies many key indicators for “Healthy China” construction, and raises the requirements on healthcare services. “Healthy China” strategy will serve as an important guideline for developing China’s healthcare industry from 2016 to 2030 with the theme of co-building, sharing and achieving nation-wide health based on the principles of health first, reform and innovation, scientific development and fairness and equality. In 2016, China’s total health spending occupied 6.2% of the total GDP of China, and as proposed during the 12th Five-Year Plan period, the total health spending will exceed RMB6.5 trillion by 2020, accounting for 6.5% to 7% of the total GDP of China. According to the World Health Organization Global Health Expenditure Database of the World Bank, health expenditure in the United States was approximately 17.1% of its GDP in 2016, representing a significantly higher percentage than China. According to the data obtained from the International Monetary Fund, it is noted that the China’s GDP is projected to grow at an average rate of 5.9% a year in 2020–2022, as a result, it will stimulate the growth in healthcare spending in the PRC over the next few years.

Further, particularly regarding Chinese traditional medicine, on 6 December 2016, the PRC government published its first white paper on traditional Chinese medicine, detailing policies and measures on traditional Chinese medicine development and highlighting its unique value in the new era. As ideas on fitness and medical models change and evolve, traditional Chinese medicine has come to underline an increasing profound value, according to the white paper. Stressing the innovative development of traditional Chinese medicine for health preservation, the white paper said the PC government aspires to enable every Chinese citizen to have access to basic traditional Chinese medicine services by 2020 and make traditional Chinese medicine services to cover all areas of medical care by 2030.

In light of the basic principles and main measures envisioned in the white paper, it is estimated that the market size of traditional Chinese medicine related services will reach RMB3.0 trillion in 2020, representing a CAGR of 19.7% as compared to approximately RMB1.7 trillion in 2017.

Having considered the above, we are of the view that that China’s total health and healthcare expenditure, particularly on traditional Chinese medicine, will continue to increase rapidly as a result of combination of favourable factors, including the increasing disposable income and rising health awareness, an ageing population, increased life expectancy and the continuous PRC government support. As “Tong Ren Tang” is one of the well-established and popular brands of healthcare and pharmaceutical products in China, the Group is well-positioned for the growth of the healthcare and pharmaceutical industry in the PRC.

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Increasing Demand from the Group's Products from the Wide Network and Coverage of the Retail Outlets in Tong Ren Tang Group

We further reviewed the Group's 2017 and 2018 Annual Report, noting that the number of products with a total revenue of more than RMB5 million increased from 51 in FY2017 to 53 in FY2018. Also, as at 30 June 2019, Tong Ren Tang Ltd. has a wide network of retail outlets of more than 854 in the PRC, representing an increase of approximately 5.7% from 808 retail outlets as at 31 December 2018. Such wide coverage of retail outlets of Tong Ren Tang Group laid a strong foundation to continue to drive the sales of the Group's products.

We further understood from the Management that by leveraging retail outlets within Tong Ren Tang Group under the "Tong Ren Tang" brand allows the Group to maximize the brand effect by making full advantage of fellow sales channels to increase market awareness of the Group's products. The strategy on leveraging on the "Tong Ren Tang" brand has proved to be successful by sustained growth of the Group's revenue and the historical transactions between the Group and Tong Ren Tang Group. Therefore, we concur with the Management the continuous expansion of the sales network of Tong Ren Tang Group will boost both the sales transactions and procurement transactions with Tong Ren Tang Group under the Renewed Framework Agreements.

Taking into account the followings, we are of the view that the bases adopted by the Management in determining the Renewed Annual Caps for the Renewed Distribution Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned:

- (i) In the past five years, the Group's growing business with the total sales revenue growth at a CAGR of about 8% and its net profit growth at CAGR of about 10%;
- (ii) the downward adjustment of the renewed annual cap for FY2020 in response to the temporary negative impact on supply due to (a) the transition period for the transfer of some species from the existing production bases to the new production bases; and (b) the GMP certification at the existing and new production bases;
- (iii) the gradual resumption and expansion of the production capacity upon completion of GMP certification;
- (iv) the favourable factors and government policies conducive to the growth the overall growth of the healthcare and traditional Chinese medicinal industry in the PRC; and
- (v) the wide coverage of the retail outlets of Tong Ren Tang.

2. *The Renewed Master Procurement Agreement*

As briefly extracted from the Letter from the Board, the Renewed Annual Caps were determined with reference to the historical transaction figures and after taking into consideration the following factors:

- a. The historical transaction amount for FY2017 and FY2018 and the annual cap for the three years ending 31 December 2019. The actual transaction amount under the Master Procurement Framework Agreement for FY2018 increased by about 23% compared with that in 2017. The actual transaction amount for the 8M2019 under the Master Procurement Framework Agreement was approximately RMB133.3 million, the actual transaction amount of FY2017 and accounting for about 91% of RMB146.2 million, being the annual actual amount of 2018 and increasing by 52.2% compared with the actual amount in the same period of 2018 of RMB87.6 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;
- b. In the past five years, the Group's total sales revenue has increased at a compound annual 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;
- c. With the gradual release of production capacity in the new production bases, 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;
- d. 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

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- e. 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.

In assessing whether the Renewed Annual Caps for the Renewed Master Procurement Agreement are fair and reasonable, we have taken into consideration of the following:

Review of the Group's Historical Figures and Historical Transaction Amounts between the Group and Tong Ren Tang Group

The tables below set out (i) the historical transaction amounts of the Continuing Connected Transactions for the Track Record Period; and (ii) the existing annual caps for the three years ending 31 December 2019:

	Year ended		Eight months ended	
	31 December		31 August	
	2017	2018	2018	2019
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>
Historical Transaction	118.97	146.22	87.58	133.30
Existing Annual Caps	240	270	270	300
Utilisation rate (%)	49.6	54.2	48.7 ⁽¹⁾	66.7 ⁽¹⁾

Note:

- the utilisation rate is calculated by dividing the historical transaction amount for the eight months by the pro-rated annual cap for the same period.

The historical transaction amount demonstrated a continuous growing trend with moderate increase of approximately 22.9% in the historical transaction amount for FY2018 and increased significantly by approximately 52.2% from approximately RMB87.58 million for the eight months ended 31 August 2018 to approximately to approximately RMB133.30 million for 8M2019. The utilisation rate also demonstrated similar growing trend from 49.6% in FY2017 to 54.2% in FY2018 and further to 66.7% for 8M2019.

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Despite the impact of the Group's production capacity in both the existing and new production base due to the GMP Certification and the transfer of some species from existing production base to new production base during 8M2019, the Group recorded a significant increase of approximately 52.2% in the procurement amount procuring raw materials, semi-finished products and finished products from Tong Ren Tang Group. Based on our understanding with the Management, the increase was primarily due to the significant rise in raw material price for one of the Group's major raw material, Material A, for more than 20% in FY2019. We have checked to the Group's raw material procurement summary for FY2017, FY2018 and 8M2019, noting that the Material A is a major component of overall raw materials in terms of amount throughout the Track Record Period. Due to its scarcity, Material A is a valuable Chinese medicine component. Based on our desktop research, according to Kang Mei Medicinal Material Price Index of China (康美中國中藥材價格指數) extracted from cnkmprice.kmzyw.com.cn, although the overall Chinese medicine index (中國中藥材價格總指數) recorded an overall mild decreasing trend by approximately 4.3% from an index of 1,265.47 as at 1 January 2018 to 1,211.51 as at 31 August 2019, the price of Material A has, however, increased significantly by more than 29% to the latest price as at 26 September 2019 compared to the same date in previous year. Given that Material A is the Group's major materials and the increasing prices, the Group has stocked up more Material A as inventory reserve in FY2019, thereby resulting in the significant increase in procurement amount from Tong Ren Tang Group. We have further reviewed the Group's inventory breakdown as at 30 June 2019, noting an increase in raw materials compared to that as at 31 December 2018.

The Company anticipated that the utilisation rate of annual cap under the Master Procurement Agreement for FY2019 to be above 70% due to the following reasons:

Due to the continuous advancement of industrial layout adjustment, the company was facing difficulties such as the alternation of new and old production capacity, limited production, continuous increase in raw material purchasing costs, energy consumption costs, and continuous increase in industrial operating costs. To this end, the Company took overall control, rationally utilized the existing production capacity, and strengthened the integrity and rationality of production capacity allocation. At the same time, the Company did well in species transfer and subsequent production planning, gradually released new production capacity, and strived to achieve production as soon as possible to meet the needs of product supply. For 8M2019, the transaction amount under the Master Procurement Framework Agreement has exceeded the full year of FY2017. In addition, raw materials will be reserved in advance for the release of new production capacity in 2020.

- (i) The annual compound growth rate of Tong Ren Tang Chinese Medicine's sales revenue in the past three years exceeds 11.3%, and the amount of purchasing related products from Tong Ren Tang Group according to the master procurement framework agreement will also increase accordingly. At the same time, in the first half of 2019, more than 40 "Tong Ren Tang"

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brand retail pharmacies of Tong Ren Tang Ltd increased at the end of last year. It is expected that these increases will also increase the Company's procurement;

- (ii) At the same time, considering that the historical transaction amount of the Master Procurement Framework Agreement in FY2018 is about 23% higher than that in FY2017, the Company expects it will continue to grow in FY2019.

We have further reviewed the 2019 Interim Report, noting that the procurement amount of Chinese medicine related products under the Master Procurement Agreement increased from approximately RMB74.2 million for the six months ended 30 June 2018 to approximately RMB82.2 million for the six months ended 30 June 2019. The annual report for the last five years, the procurement of Chinese medicine related products under the Master Procurement Agreement were generally in an increasing trend with CAGR of 11.7%.

After considering (i) growing utilisation rates from FY2017 to 8M2019; (ii) the utilisation rate of the historical transactions under the Master Procurement Agreement for the 8M2019 already exceeded 65% of the pro-rated annual cap for 2019; (iii) the increasing prices for Material A in 2019; (iv) the CAGR of procurement of Chinese medicine related products under the Master Procurement Agreement of 11% in the last five years; and (v) the historical procurement transactions for the 8M2019 represented an increase of 52.2% for the same period in 2018, we have no reasonable doubt against the Group's anticipation of the utilisation rate to be above 70% of the annual cap under the Master Procurement Agreement. Although the utilisation rate increased significantly from 54.2% in FY2018 to 66.7% in 8M2019, the Group adjusted downward the annual cap for FY2020 by 10% in response to the negative impact on the production mentioned in the section headed "1. The Renewed Distribution Framework Agreement" above. Despite the downward adjustment for FY2020, the annual caps for FY2021 and FY2022 is expected to increase gradually with approximately 19% and 16% year on year growth of the Renewed Annual Caps.

Completion of New Production Bases and thereby the Expected Increase in Production Capacity

As set out in the section above, two new production bases, namely the Daxing Branch and the Tong Ren Tang Technologies Tangshan, were completed by the end of 2018. Based on our review of the 2018 Annual Report, the Daxing Branch will become comprehensive production base which focuses on the manufacture and research of water-honeyed pills, condensed pills, big honeyed pills, and other pills while the Tong Ren Tang Technologies Tangshan will further enhance the production efficiency by building high standard workshops and adopting advanced automatic and mechanical equipment. We have reviewed the voluntary announcements dated 20 December 2017 and 12 April 2019, noted that the existing production line has a designed production capacity of 25 million branch of mixture (including oral liquid) and 4 million bottles of Syrup, while the new production line located in Tangshan Base has a significantly higher designed production capacity of 180 million branch of mixture (including oral liquid) and 6 million bottles of Syrup.

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According to the 2019 Interim Report, some production lines and production workshops in the Daxing Branch and the Tong Ren Tang Technologies Tangshan have successfully received GMP certification, thus laid a good foundation for the Company to expedite industrial layout adjustment, improve industrial chain and solve the production capacity bottleneck in the future. The increased production capacity is expected to support and take on the growth potential from the Group's products.

However, as mentioned in the section above, each product can only be produced in one production base. If there are any subsequent changes to the address of the production base, prior approval must be obtained from the relevant authority and GMP certification must also be completed. As confirmed with the Management, the two new production bases are currently in the process of trial production and GMP certification for some production lines and workshops and has not yet reached its full capacity. Considering that there will be a period of time to complete all the necessary procedures and process, the Group expects a gradual increase in production capacity, thereby also gradually increasing the annual caps under the Renewed Master Procurement Agreement.

Increasing prices for the Group's major material

As set forth in the section above, the price of Material A, one of the Group's Chinese medicine main raw materials during the Track Record Period, it has recorded a significant annual increase in price by more than 29%. Furthermore, the overall Chinese medicine index (中國中藥材價格總指數) has also started to increase since end of June 2019. We have further checked to the Raw Material Composite 200 Index from the World Chinese Medicine Materials Website (中藥材天地網原材料綜合指數200) extracted from www.zyctd.com, the index also reflected a similar trend with the index starts rising since June 2019. Therefore, the rising price of Chinese medicinal raw materials is expected to increase the transaction amount under the Renewed Master Procurement Agreement.

Increasing Demand of the Group Products

As set forth in the section above, the demand of the Group's product is expected to increase from (a) the expansion of distribution network with the brand of "Tong Ren Tang" of Tong Ren Tang Group; (b) the continuing development of the business of the Group; and (c) the growth of the healthcare and the Chinese medicinal industry.

As demonstrated in the above section headed "Review of the Group's historical figures and historical transaction amounts between the Group and Tong Ren Tang Group", and as stated in the Letter from the Board, in the past five years, the revenue and profitability of the Group both shows a trend of sustained growth at a CAGR of about 8% and 10% respectively. Benefited from the favourable government policies to make traditional Chinese medicine services to cover all areas of medical care by 2030, the coverage of the retail outlets of the Tong Ren Tang Group has been increasing, which laid a strong foundation to increase the reach and exposure to a larger group of customers for the Group.

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As stated in the Letter from the Board, 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. With the increasing disposable income in China, consumers show rising health awareness. According to an article named "China consumer trend index remained at 115 points in Q2 2019" published in 13 August 2019 by a global market research firm, The Nielsen Company, and its Chinese Consumer Confidence Index in Q2 2019, the proportion of people considering multinational companies' brands and requiring "green and healthy" stands at 30%. Besides, 55% of consumers choose local health care brands that are trustworthy, higher than those who buy international brands (53%). And as for healthcare products, domestic brands in healthcare product sectors may have more opportunities in the upcoming year. 39% of the consumers said they will buy domestic health care products, and 33% will choose the products with better quality and higher price. Therefore, Chinese medicine has been attracting more attention from consumers because of its natural origin, low side effects and relatively economic advantages as compared with the chemical drugs of western medicine. The growing health awareness is expected to breed more market opportunities for Chinese medicine and health products.

The Group's Emphasis on Quality Enhancement

As discussed in the 2018 Annual Report, the Group will closely focus on the main idea of "quality management enhancement", constantly improve quality management, safety production and operational risk prevention and control system, consolidate the foundation of development, enhance brand image, and ensure healthy, sustainable and stable high-quality development of the Group. 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 or 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.

Taking into account the followings, we are of the view that the bases adopted by the Management in determining the Annual Caps for the Renewed Master Procurement Agreement are fair and reasonable so far as the Independent Shareholders are concerned:

- (i) In the past five years, the Group's growing business with the total sales revenue growth at a CAGR of about 8% and its net profit growth at CAGR of about 10%;
- (ii) the increasing utilisation rates of the historical transactions under the Master Procurement Agreement;
- (iii) the downward adjustment of the renewed annual cap for FY2020 in response to the temporary negative impact on supply due to (a) the transition period for the transfer of some species from the existing production bases to the new production bases; and (b) the GMP Certification at the existing and new production bases;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (iv) the gradual resumption and expansion of the production capacity upon completion of GMP certification;
- (v) the significant increase in the prices for the Group's major raw material, Material A;
- (vi) the increasing demand of the Group's products from different aspects; and
- (vii) the procurement of raw materials from Tong Ren Tang Group allows the Group to ensure the quality of the source of raw materials to ensure product quality of its own products.

However, Shareholders should note that the Renewed Annual Caps relate to future events and they do not represent a forecast of turnover to be generated from the Continuing Connected Transactions.

(E) Reporting requirements and conditions of the Continuing Connected Transactions

Pursuant to Rules 14A.55 to 14A.59 of the Hong Kong Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) each year the independent non-executive directors must review the continuing connected transactions and confirm in the annual report and accounts that the continuing connected transactions have been entered into:
 - in the ordinary and usual course of business of the group;
 - in normal commercial terms or better; and
 - according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole;
- (b) each year the auditors of the company must provide a letter to the board (with a copy provided to the Hong Kong Stock Exchange at least 10 business days prior to the bulk printing of the company's annual report) confirming that the continuing connected transactions:
 - have received the approval of the board;
 - are in accordance with the pricing policies of the group;
 - have been entered into in accordance with the terms of the relevant agreements governing the continuing connected transactions; and
 - have not exceeded the annual cap.
- (c) the company shall allow, and ensure the relevant counterparties to the continuing connected transactions allow, the company's auditors sufficient access to their records for the purpose of reporting on the continuing connected transactions as set out in paragraph (b); and

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (d) the company shall promptly notify the Hong Kong Stock Exchange and publish an announcement in accordance with the Hong Kong Listing Rules if it knows or has reason to believe that the independent non-executive directors and/or auditors of the company will not be able to confirm the matters set out in paragraphs (a) and (b) respectively.

In light of the reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the maximum value of the Continuing Connected Transactions by way of the Renewed Annual Caps; (ii) the ongoing review by the independent non-executive Directors and auditors of the Company of the terms of the Continuing Connected Transactions and the Renewed Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Renewed Framework Agreements, together with the Renewed Annual Caps, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and are conducted in the ordinary and usual course of business of the Group.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the Continuing Connected Transactions, as detailed in the notice of extraordinary general meeting as set out at the end of the Circular.

Yours faithfully,
For and on behalf of
Innovax Capital Limited
Erica Ling
Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS**(i) Directors, Supervisors and the Chief Executive of the Company**

As at the Latest Practicable Date, none of the Directors, Supervisors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements in the Model Code.

(ii) Substantial Shareholders

As at the Latest Practicable Date, the following persons (other than the Directors, Supervisors and the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as follows:

Name of shareholder	Capacity	Number of Shares	Percentage of Domestic Shares	Percentage of H Shares	Percentage of total registered share capital
Tong Ren Tang Ltd.	Beneficial owner	600,000,000	92.013%	—	46.846%
Tong Ren Tang Holdings (Note 2)	Interest of controlled corporation by the substantial shareholder	600,000,000	92.013%	—	46.846%
	Beneficial owner	9,480,000	1.454%	—	0.740%
Total		609,480,000	93.467%	—	47.586%
Yuan Sai Nan (Note 3)	Beneficial owner	35,732,000 (L) (Note 1)	—	5.68%	2.790%
Mitsubishi UFJ Financial Group, Inc. (Note 4)	Interest of corporation controlled by the substantial shareholder	62,823,000 (L) (Note 1)	—	9.99%	4.905%
Hillhouse Capital Advisors, Ltd. (Note 5)	Investment manager	47,663,000 (L) (Note 1)	—	7.58%	3.721%
Citigroup Inc. (Note 6)	Interest of corporation controlled by the substantial shareholder,	43,584,896 (L) (Note 1)	—	6.93%	3.403%
	Person having a security interest in shares,	5,000 (S) (Note 1)	—	0.00%	0.00%
	Custodian corporation/ approved lending agent	26,420,488 (P) (Note 1)	—	4.20%	2.063%

Notes: Information disclosed above is based on the data published on the HKExnews website of the Hong Kong Stock Exchange (www.hkexnews.hk) unless otherwise stated in the notes below.

- (1) (L) — Long position (S) — Short position (P) — Lending Pool
- (2) 600,000,000 shares held by Tong Ren Tang Holdings were held through Tong Ren Tang Ltd.. As at the Latest Practicable Date, Tong Ren Tang Ltd. was owned as to 52.45% by Tong Ren Tang Holdings. Tong Ren Tang Holdings was deemed to be interested in the 600,000,000 shares held by Tong Ren Tang Ltd.. Besides, Tong Ren Tang Holdings also directly held 9,480,000 shares.
- (3) As at the Latest Practicable Date, Yuan Sai Nan held 35,732,000 H shares of the Company in long position.
- (4) As at the Latest Practicable Date, Mitsubishi UFJ Financial Group, Inc. indirectly held 62,823,000 H shares of the Company in long position through a series of corporations under its control.
- (5) As was known by the Directors, due to an internal reorganisation, the investment manager for both Gaoling Fund, L.P. and YHG Investment, L.P. changed from Hillhouse Capital Management, Ltd. to Hillhouse Capital Advisors, Ltd., effective from 1 January 2019. There was no transfer of shares of the Company as part of the reorganisation. As at the Latest Practicable Date, Hillhouse Capital Advisors, Ltd. was indirectly interested in 46,106,000 H shares of the Company in long position indirectly held by Gaoling Fund, L.P. and 1,557,000 H shares of the Company in long position held by YHG Investment, L.P.
- (6) Citigroup Inc. indirectly held 196,408 H shares of the Company in long position and 5,000 H shares of the Company in short position through a series of entities under its control, held 16,968,000 H shares of the Company in long position as a person holding security interest in shares, and held 26,420,488 H shares in long position of the Company as custodian corporation/approved lending agent.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors, Supervisors and the chief executive of the Company) who had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

3. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

4. INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors, proposed Directors (if applicable), Supervisors, proposed Supervisors (if applicable) or their respective associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. DIRECTORS' AND SUPERVISORS' INTEREST IN ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors or the Supervisors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up or were proposed to be acquired or disposed of by or leased to any member of the Group; and none of the Directors, Supervisors or their respective associates was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

6. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or the Supervisors had any existing or proposed service contracts with any member of the Group which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

7. DIRECTORS' AND SUPERVISORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following Directors and Supervisors were in the employment of those companies which had interests or short positions in the shares or underlying shares of the Company which are required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO:

Name of Director and Supervisor	Positions held in specific companies	
	Tong Ren Tang Holdings	Tong Ren Tang Ltd.
Gu Hai Ou (<i>Chairman</i>)	deputy general manager	—
Huang Ning	deputy chief TCM pharmacist	—
Wu Qian	director of the general office	—
Su Li	deputy head of financial management department	—

8. LITIGATION

As far as the Directors were aware of, none of the members of the Group was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatening by or against any member of the Group as at the Latest Practicable Date.

9. EXPERT'S QUALIFICATION AND CONSENT

Innovax Capital Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

The following is the qualification of Innovax Capital Limited who has given its opinions or advices which are contained in this circular:

Name	Qualification
Innovax Capital Limited	Independent Financial Adviser, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

10. EXPERT'S INTERESTS

As at the Latest Practicable Date, Innovax Capital Limited did not have any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group since 31 December 2018, being the date to which the latest audited financial statements of the Group were made up, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, and was not beneficially interested in the shares of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

11. METHOD OF VOTING AT THE EGM

According to Rule 13.39(4) of the Hong Kong Listing Rules, any vote of shareholders at a general meeting must be taken by way of poll. Accordingly, the chairman of the EGM will demand a poll in relation to the proposed resolutions at the EGM.

12. MISCELLANEOUS

- (a) The registered office of the Company is located at No. 16 Tongji Beilu, Beijing Economic and Technology Development Zone, Yizhuang, Beijing, the PRC.
- (b) The share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Ltd. at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (c) The company secretary of the Company is Ms. Zhang Jing Yan, a practicing pharmacist with a master degree in Economics, who also serves as the secretary to the Board.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Room 1408–1409, Convention Plaza Office Tower, No. 1 Harbour Road, Wanchai, Hong Kong during normal business hours from the date of this circular up to and including 14 November 2019:

- (a) the Distribution Framework Agreement dated 16 October 2019;
- (b) the Master Procurement Agreement dated 16 October 2019;
- (c) the letter from the Independent Board Committee as set out on pages 23 to 24 of this circular;
- (d) the letter from the Independent Financial Adviser as set out on pages 25 to 48 of this circular; and
- (e) the written consent of Innovax Capital Limited referred to in this Appendix.

NOTICE OF EGM



Tong Ren Tang Technologies Co. Ltd.

北京同仁堂科技發展股份有限公司

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

(Stock Code: 1666)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “EGM”) of Tong Ren Tang Technologies Co. Ltd., (the “**Company**”) will be held at 9:30 a.m. on Monday, 16 December 2019 in No. 20 Nanshuan Zhonglu, Fengtai District, Beijing, the PRC for the purpose of considering and, if thought fit, passing the following resolutions:

As Ordinary Resolutions

1. **THAT**, the Distribution Framework Agreement renewed by the Company and China Beijing Tong Ren Tang Group Co., Ltd. on 16 October 2019 and the annual caps for the continuing connected transactions contemplated thereunder for the three years from 1 January 2020 to 31 December 2022 are hereby approved and confirmed; and any director of the Company is hereby authorized to sign or execute other documents or supplement agreements or deeds on behalf of the Company and to do all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the renewed Distribution Framework Agreement with such changes as he may consider necessary, desirable or expedient.
2. **THAT**, the Master Procurement Agreement renewed by the Company and China Beijing Tong Ren Tang Group Co., Ltd. on 16 October 2019 and the annual caps for the continuing connected transactions contemplated thereunder for the three years from 1 January 2020 to 31 December 2022 are hereby approved and confirmed; and any one director of the Company is hereby authorized to sign or execute such other documents or supplement agreements or deeds on behalf of the Company and to do

NOTICE OF EGM

all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the renewed Master Procurement Agreement with such changes as he may consider necessary, desirable or expedient.

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

Beijing, the PRC
31 October 2019

As at the date of this notice, 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.

Notes:

1. ELIGIBILITY FOR ATTENDING THE EGM

Holders of H shares whose names appear on the register of the Company maintained by Hong Kong Registrars Ltd., the H share registrar and transfer office of the Company in Hong Kong, and holders of domestic shares whose names appear on the register of the Company on Saturday, 16 November 2019 shall be entitled to attend the EGM.

2. PROXY

- (1) Shareholders entitled to attend and vote at the EGM may appoint one or more proxies in writing to attend and vote at the meeting on his behalf. The proxy need not be a shareholder of the Company.
- (2) A proxy shall be appointed by a shareholder by a written instrument signed by the appoint or his attorney duly authorized in writing. In case of a corporation, the same must be either under its common seal or under hand of its director(s) or duly authorized attorney(s). If the written instrument is signed by an attorney of the appoint or, the power of attorney or other documents of authorization of such attorney shall be notarized.
- (3) To be valid, the notarized power of attorney or other document(s) of authorization (if any) and the form of proxy shall be delivered to (i) Hong Kong Registrars Ltd., the H share registrar and transfer office of the Company in Hong Kong, for holders of H shares; and (ii) the office address of the Company for holders of domestic shares, no less than 24 hours before the time fixed for convening the EGM or any adjournment thereof (as the case may be). Completion and return of a form of proxy will not preclude a shareholder from attending and voting in person at the meeting if he so desires.
- (4) If a shareholder appoints more than one proxy, such proxies shall only exercise their voting rights by a poll.

3. REGISTRATION PROCEDURES FOR ATTENDING THE EGM

- (1) A shareholder or his proxy shall produce his identification document when attending the EGM. Where a shareholder is a legal person, the legal representative of that shareholder or the person authorized by its board of directors or other governing body shall produce a copy of the resolution of the board of directors or other governing body of such shareholder appointing such person to attend the meeting.

NOTICE OF EGM

- (2) Shareholders intending to attend the EGM shall return to the Company the reply slip stating their attendance on or before Monday, 25 November 2019.
- (3) A shareholder may return the above reply slip to the Company in person, by post or by facsimile to the office of the Company or the H share registrar and transfer office of the Company, Hong Kong Registrars Ltd..

4. CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Saturday, 16 November 2019 to Monday, 16 December 2019 (both days inclusive), during which time no transfer of shares will be registered.

In order to be qualified for attending and voting at the EGM, all transfer documents of the holders of H shares together with the relevant share certificates must be lodged with Hong Kong Registrars Ltd., the Company's H share registrar and transfer office in Hong Kong, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 15 November 2019.

5. METHOD OF VOTING AT THE EGM

Pursuant to Rule 13.39 (4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting must be taken by way of poll. Accordingly, the chairman of the EGM will demand a poll in relation to all the proposed resolutions at the EGM.

6. MISCELLANEOUS

- (1) The EGM is expected to be held for less than half a day. Shareholders attending the EGM shall be responsible for their own travelling and accommodation expenses.
- (2) The address of Hong Kong Registrars Ltd., the H share registrar and transfer office of the Company in Hong Kong, is 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (3) The office and the contact details of the Company are:

No. 20, Nansanhuan Zhonglu, Fengtai District,
Beijing, the PRC
Telephone: (+86) 10 8763 2179
E-Mail: trt1666@163.com