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**If you are in doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisers.

**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 REVISION OF THE ANNUAL CAPS FOR  
THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED  
UNDER THE DISTRIBUTION FRAMEWORK AGREEMENT FOR  
THE THREE YEARS ENDING 31 DECEMBER 2022; AND  
NOTICE OF EGM**

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



**Vinco Capital Limited**

A letter from the Board is set out on pages 4 to 12 of this circular. A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 13 to 14 of this circular. A letter from Vinco Capital, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 27 of this circular. A notice convening the EGM to be held at 9:30 a.m. on Wednesday, 23 December 2020 at No. 20 Nanshuan Zhonglu, Fengtai District, Beijing, the PRC, is set out on pages 33 to 34 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 Limited, the H Share registrar and transfer office of the Company in Hong Kong, at Shops 1712–1716, 17th 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, Nanshuan 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.

2 December 2020

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## DEFINITIONS

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

“Annual Caps”	means the annual caps for the continuing connected transactions contemplated under the Distribution Framework Agreement for the three years ending 31 December 2022
“associate(s)”	means has the meaning ascribed under the Hong Kong Listing Rules
“Beijing SASAC”	means The State-owned Assets Supervision and Administration Commission of the State Council of Beijing Municipality (北京市人民政府國有資產監督管理委員會)
“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 limited 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”	means has the meaning ascribed under the Hong Kong Listing Rules
“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, pursuant to which the Group may sell Relevant Products to Tong Ren Tang Group, and Tong Ren Tang Group, as non-exclusive distributor of the Group, may purchase Relevant Products from the Group and then distribute the same to retailers and/or end-users
“Domestic Share(s)”	means the domestic invested 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 expected to be convened and held by the Company at 9:30 a.m. on Wednesday, 23 December 2020 at No. 20 Nansanhuan Zhonglu, Fengtai District, Beijing, the PRC, to seek Independent Shareholders’ approval of the revision of the Annual Caps

## DEFINITIONS

“Group”	means the Company and its subsidiaries
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	means The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time)
“Hong Kong Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“H Share(s)”	means the overseas-listed foreign invested ordinary share(s) in the share capital of the Company with a nominal value of RMB 1.00 each, which is/are listed on the Hong Kong Stock Exchange and subscribed for in Hong Kong dollars
“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 proposed revision of the Annual Caps
“Independent Financial Adviser” or “Vinc Capital”	means Vinc Capital Limited, a corporation licensed to carry out in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the proposed revision of the Annual Caps
“Independent Shareholders”	means Shareholders other than Tong Ren Tang Holdings and its associates
“Latest Practicable Date”	means 26 November 2020, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“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 Product(s)”	means the relevant product(s) produced by the Group

## DEFINITIONS

“RMB”	means Renminbi, the lawful currency of the PRC
“SFO”	means Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	means the ordinary share(s) with a nominal value of RMB1.00 each in the share capital of the Company, including Domestic Share(s) and H Share(s)
“Shareholder(s)”	means the shareholder(s) of the Company
“Supervisor(s)”	means the supervisor(s) 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 limited company incorporated in Hong Kong and a non wholly-owned subsidiary of the Company, the shares of which were listed on GEM of the Hong Kong Stock Exchange on 7 May 2013 and were transferred to the Main Board of the Hong Kong Stock Exchange on 29 May 2018
“Tong Ren Tang Chinese Medicine Group”	means Tong Ren Tang Chinese Medicine and its subsidiaries
“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
“Tong Ren Tang Group”	means Tong Ren Tang Holdings and its subsidiaries and associates (other than the Group)
“Tong Ren Tang Ltd.”	means Beijing Tong Ren Tang Company Limited (北京同仁堂股份有限公司), a joint stock limited company established in the PRC, the shares of which have been listed on the Shanghai Stock Exchange A Shares Market since 1997 (stock code: 600085.SH), and is the direct controlling Shareholder 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 (*Chairman*)  
Mr. Jin Tao  
Mr. Ma Guan Yu  
Ms Wu Qian  
Mr. Wang Yu Wei  
Ms. Fang Jia Zhi

*Independent non-executive Directors:*

Mr. Ting Leung Huel, Stephen  
Ms Chan Ching Har, Eliza  
Mr. Zhan Yuan Jing

*Registered office:*

No.16 Tongji Beilu,  
Beijing Economic and Technology  
Development Zone,  
Beijing, the PRC

*Office and mailing address:*

No. 20, Nansanhuan Zhonglu,  
Fengtai District,  
Beijing, the PRC

2 December 2020

*To the Shareholders*

Dear Sir or Madam,

**PROPOSED REVISION OF THE ANNUAL CAPS FOR  
THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED  
UNDER THE DISTRIBUTION FRAMEWORK AGREEMENT FOR  
THE THREE YEARS ENDING 31 DECEMBER 2022; AND  
NOTICE OF EGM**

**I. INTRODUCTION**

Reference is made to the announcements of the Company dated 16 October 2019 and 16 December 2019 and the circular of the Company dated 31 October 2019, in relation to, among others, the Distribution Framework Agreement renewed by the Company and Tong Ren Tang Holdings, pursuant to which, the Group has agreed to sell Relevant Products to Tong Ren Tang Group, and Tong Ren Tang Group, as a non-exclusive distributor of the Group, has agreed to purchase Relevant Products from the Group and then distribute the same to retailers and/or end-users for a term of three years from 1 January 2020 to 31 December 2022.

## LETTER FROM THE BOARD

Reference is also made to the announcement of the Company dated 6 November 2020, in relation to the proposed revision of the Annual Caps. The existing major terms and conditions under the Distribution Framework Agreement remain unchanged.

The purpose of this circular is to provide you with, among other things, (i) detailed information regarding the proposed revision of the Annual Caps; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders; and (iv) a notice convening the EGM.

### II. PROPOSED REVISION OF THE ANNUAL CAPS

#### 1. Existing Annual Caps

The existing Annual Caps are set as follows:

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

#### 2. Historical Transaction Amount of the Continuing Connected Transactions under the Distribution Framework Agreement

The historical transaction amount of the continuing connected transactions under the Distribution Framework Agreement for the nine months ended 30 September 2020 as known to the Directors is as follows:

	<b>Nine months ended 30 September 2020 (RMB million)</b>
<b>Historical Transaction Amount</b>	939

The Directors have been monitoring the transaction amounts of the continuing connected transactions under the Distribution Framework Agreement. As at the Latest Practicable Date, the existing annual cap for the continuing connected transactions for the year ending 31 December 2020 has not been exceeded. The Directors expects that the actual transaction amounts up to the date of the EGM will not exceed the existing annual cap for the continuing connected transactions under the Distribution Framework Agreement for the year ending 31 December 2020.

## LETTER FROM THE BOARD

### 3. Proposed Revised Annual Caps

The proposed revised Annual Caps are set as below:

	Year ending 31 December 2020 (RMB million)	Year ending 31 December 2021 (RMB million)	Year ending 31 December 2022 (RMB million)
<b>Proposed Revised Annual Caps</b>	1,450	1,670	1,850

### 4. Reasons for the revision of the existing Annual Caps

In addition to the reasons for determining the existing Annual Caps as stated in the announcement of the Company dated 16 October 2019 and the circular of the Company dated 31 October 2019, the revised Annual Caps were determined with taking into consideration the following factors:

- (i) for the nine months ended 30 September 2020, the actual incurred amount of Relevant Products sold to the Tong Ren Tang Group by Tong Ren Tang Chinese Medicine Group was RMB165 million; meanwhile, Tong Ren Tang Chinese Medicine Group has received purchasing orders by Tong Ren Tang Group in October 2020 amounting to RMB45 million approximately and estimates that the projected sales for the two months ending 31 December 2020 will amount to around RMB90 million. Tong Ren Tang Chinese Medicine also expects that the demand of the Relevant Products sold to Tong Ren Tang Group by Tong Ren Tang Chinese Medicine will continuously increase in domestic market with a forecasted annual growth rate of 9% for the two years ending 31 December 2022 based on the projected sales in 2020. Based on the above, it is estimated that the Annual Caps for the sales of Relevant Products by Tong Ren Tang Chinese Medicine Group to Tong Ren Tang Group under the Distribution Framework Agreement will be raised by RMB81 million, RMB118 million, and RMB130 million respectively. Please refer to the announcement of Tong Ren Tang Chinese Medicine dated 6 November 2020 for details;
- (ii) for the six months ended 30 June 2020, the sales amount of major products of the Company, including Liuwei Dihuang Pills (六味地黃丸) series, Jinkui Shenqi Pills (金匱腎氣丸) series, Xihuang Pills (西黃丸) series increased by 16.66%, 5.42%, and 49.38% over the same period last year respectively, and sales amount of Shengmai Yin Liquid (生脈飲口服液) series more than doubled over the same period last year. Relying on expansion of the distribution network of Tong Ren Tang Group's "Tong Ren Tang" brand and the gradual promotion of the distribution model in which certain products are exclusively distributed by specialized companies of the Tong Ren Tang Group, the "Tong Ren Tang" branded retail drugstores owned by Tong Ren Tang Ltd. has increased by 22% in the past three years. The Group will continue to strengthen its cooperation with retail drugstores and each distribution network in the Tong Ren Tang



## LETTER FROM THE BOARD

Group, which may lead to an increase in sales amount of Relevant Products from the Group to the Tong Ren Tang Group under the Distribution Framework Agreement;

- (iii) following the outbreak of the COVID-19 epidemic, Chinese medicine has been widely used in the prevention and treatment of COVID-19, and the market demand for Chinese medicine is expanding. Huoxiang Zhengqi Liquid (藿香正氣水) and other products produced by the Group have been listed in the nation's "Diagnosis and Treatment Program of Pneumonia Infected by Novel Coronavirus." Based on the characteristics of the disease and the concept of traditional Chinese medicine treatment, and in response to the needs of the public to enhance immunity under the epidemic prevention and control measures, the Company have launched products of five categories — "health boosting, lung nourishment, pediatric medicine, anti-cancer, and kidney disease" targeting the "prevention, control, resistance, and maintenance" stages, which would further increase the sales to the distribution network of the Tong Ren Tang Group. Coupled with the gradual improvement of the current economic and market conditions in the PRC, it is expected that the Group's sales of Relevant Products to the Tong Ren Tang Group will further increase under the Distribution Framework Agreement;
- (iv) the Group always had variety development at its core, covering Chinese patent medicine (including pill products, tablet products, granules, oral liquid, gels and other dosage products), food, cosmetics and others. In the future, the Group will continuously endeavor to enrich product variety and optimize of product structure through research and development, as well as product introduction, which is expected to drive the increase of the actual transaction amount under the Distribution Framework Agreement in the future with the enriched varieties and categories of Relevant Products sold by the Group to Tong Ren Tang Group under the Distribution Framework Agreement; and
- (v) taking into account of the above items (ii) (iii) and (iv), including the reliance on the distribution network of Tong Ren Tang Group in the sales of the major products, the continuous efforts in the enrichment of the product variety, and the improvement of the market conditions in the PRC, the sales amount of the Relevant Products sold to Tong Ren Tang Group by the Group under the Distribution Framework Agreement is expected to see an annual increase of around 10% for the three years ending 31 December 2022, and a buffer of around 5% is reserved for any unexpected increase in the sales amount.

The Directors are of the view that the proposed revision of the Annual Caps is fair and reasonable as well as in line with the interests of the Company and its Shareholders as a whole.

## LETTER FROM THE BOARD

### 5. Implementation Agreements

Members of the Group and members of the Tong Ren Tang Group will enter into, from time to time and as necessary, specific implementation agreements to set out the relevant terms and conditions in respect of the transactions thereunder.

As the specific implementation agreements provide for the specific terms and conditions of the transactions contemplated under the Distribution Framework Agreement, as such, the specific implementation agreements do not constitute new connected transactions. Any such specific implementation agreements will be within the ambit of the Distribution Framework Agreement and the relevant Annual Caps, and if exceeded, the Company will comply with the relevant requirements under the Hong Kong Listing Rules accordingly.

### 6. Internal Control Measures

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

- i. after entering into the Distribution Framework Agreement, the continuing connected transactions contemplated thereunder shall be strictly in compliance with the approved terms and conditions. Individual implementation agreement of the Distribution Framework Agreement shall be performed in strict accordance with pricing policies set out in the Distribution Framework Agreement. If revision of such terms and conditions is required due to change of actual situation, it is required to re-perform appropriate approval process;
- ii. the relevant sales departments of members of the Group ("**Relevant Business Departments**") entering into the individual implementation agreements will continuously monitor the pricing terms, receipt arrangements and actual transaction amount of each of the individual implementation agreements relating to the 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 the internal control system every six months, and conduct sampling review of the above information, so as to ensure transactions under the Distribution Framework Agreement conform with the relevant connected transaction management rules 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 Distribution Framework Agreement;
- iii. with the relatively stable price of the majority of the Chinese patent medicine products, the sales department of the Company is responsible for collecting and evaluating the market data, including but not limited to the prevailing market

## LETTER FROM THE BOARD

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. Considering the cost factor and 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 Relevant Product under the 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 by sales, pricing, financial departments and other relevant departments of the Company;

- iv. the financial department of the Company is responsible for collecting and totaling 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 for preparing 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 need to revise the annual caps, they shall make the application regarding the proposed 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 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 the completion of all approval and disclosure procedures, the person in charge of the Relevant Business Departments involved in the continuing connected transactions shall ensure that the transaction amounts do not exceed the relevant annual caps;
- v. pursuant to the information disclosure 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 Distribution Framework Agreement;
- vi. the independent non-executive Directors will continue to review the continuing connected transactions under the 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 Distribution Framework Agreement; and

## **LETTER FROM THE BOARD**

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

Taking into account of: (i) the above methods and procedures are necessary components of an internal control system, including designated department and responsible officer, clear approval process and monitoring system and detailed and explicit assessment criteria; and (ii) the above mentioned review procedures and approval process against the explicit assessment criteria can ensure that the transactions will be executed in compliance with the pricing principles stipulated in the Distribution Framework Agreement, the Directors are of the view that such methods and procedures can ensure and safeguard that the transactions contemplated under the 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.

### **III. 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 the Distribution Framework Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Hong Kong Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed revised Annual Caps exceed 5%, the proposed revision of the Annual Caps is 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 proposed revision of the Annual Caps.

### **IV. GENERAL INFORMATION**

#### **The Company**

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

#### **Tong Ren Tang Holdings**

Tong Ren Tang Holdings is principally engaged in the processing, manufacture and sale of Chinese medicinal materials, Chinese patent medicine, Chinese medicinal decoction pieces, medical food, warehousing and transportation, etc.. Beijing SASAC is the ultimate beneficial owner of Tong Ren Tang Holdings. Pursuant to the Program for the Reform of the Institutions of the People's Government of Beijing Municipality as approved by the Central Committee of the Communist Party of China and the State Council and the Circular of the People's Government of Beijing Municipality about the Establishment of Institutions, Beijing SASAC is established as a special institution

## LETTER FROM THE BOARD

directly under the Municipality Government and is authorized by the Municipality Government to represent the State to perform the duties of the state-owned assets contributor.

### V. EGM

A notice convening the EGM to be held at 9:30 a.m. on Wednesday, 23 December 2020 at No. 20 Nansanhuan Zhonglu, Fengtai District, Beijing, the PRC, is set out on pages 33 to 34 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 resolutions to be proposed at the EGM in relation to the revised Annual Caps. As at the Latest Practicable Date, Tong Ren Tang Holdings and its associates, directly and indirectly, hold 621,110,000 Domestic Shares (representing approximately 48.49% 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 proposed revision of the Annual Caps 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 Limited, the H Share registrar and transfer office of the Company in Hong Kong, at Shops 1712–1716, 17th 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, 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.

As disclosed in the announcement of the Company dated 6 November 2020, the register of members of the Company will be closed from Monday, 23 November 2020 to Wednesday, 23 December 2020 (both days inclusive), during which time no transfer of shares of the Company 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 Limited, 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, 20 November 2020.

### VI. 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; and (ii) the letter from Vinco Capital set out in this circular which

## LETTER FROM THE BOARD

contains its advice to the Independent Board Committee and the Independent Shareholders, as well as the principal factors and reasons taken into account by Vinco Capital in arriving at its advice.

The Directors believe that the proposed revision of the Annual Caps is fair and reasonable as well as in line with the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the relevant resolution 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)

2 December 2020

*To the Independent Shareholders*

Dear Sir or Madam,

**PROPOSED REVISION OF THE ANNUAL CAPS FOR  
THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED  
UNDER THE DISTRIBUTION FRAMEWORK AGREEMENT FOR  
THE THREE YEARS ENDING 31 DECEMBER 2022**

We refer to the circular of the Company dated 2 December 2020 (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 revision of the existing Annual Caps (details of which are set out in the letter from the Board) is fair and reasonable so far as the Independent Shareholders are concerned.

Vinco Capital 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 proposed revision of Annual Caps. Details of the advice from Vinco Capital, together with the principal factors taken into consideration in arriving at such advice, are set out in its letter on pages 15 to 27 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 4 to 12 of the Circular and the additional information set out in the Appendix.

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

Having considered the detailed information of the revision of Annual Caps, the interests of the Independent Shareholders and the advice of Independent Financial Adviser, we are of the opinion that the revision of the Annual Caps is fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM so as to approve the revision of the Annual Caps.

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 VINCO CAPITAL

*The following is the text of a letter of advice from Vinco Capital to the Independent Board Committee and the Independent Shareholders in respect of the revision of annual caps for the continuing connected transactions contemplated under the Distribution Framework Agreement which has been prepared for the purpose of incorporation in this circular:*



**Vinco Capital Limited**  
Unit 2610, 26/F., The Center  
99 Queen's Road Central, Hong Kong

2 December 2020

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

Dear Sirs,

### **PROPOSED REVISION OF THE ANNUAL CAPS FOR THE CONTINUING CONNECTED TRANSACTIONS CONTEMPLATED UNDER THE DISTRIBUTION FRAMEWORK AGREEMENT FOR THE THREE YEARS ENDING 31 DECEMBER 2022**

#### **A. INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the revision of Annual Caps for the continuing connected transactions contemplated under the Distribution Framework Agreement, details of which are set out in the “Letter from the Board” (the “**Letter from the Board**”) of the circular issued by the Company dated 2 December 2020 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

Reference is made to the announcement of the Company dated 6 November 2020 in relation to the revision of the Annual Caps for the continuing connected transactions contemplated under the Distribution Framework Agreement. On 6 November 2020, Board has resolved to revise the Annual Caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2022. The revised Annual Caps under the Distribution Framework Agreement will be amended from RMB1,300 million, RMB1,500 million and RMB1,700 million for the three years ending 31 December 2022 to RMB1,450 million, RMB1,670 million and RMB1,850 million respectively. The revision of the Annual Caps shall be effective after being approved at EGM in accordance with the Hong Kong Listing Rules.

## LETTER FROM VINCO CAPITAL

As at the Latest Practicable Date, 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 Distribution Framework 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 proposed revised Annual Caps exceed 5%, the proposed revision of the Annual Caps is subject to Independent Shareholders' approval requirement in addition to reporting, annual review and announcement requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Ting Leung Huel, Stephen, Ms. Chan Ching Har, Eliza and Mr. Zhan Yuan Jing has been formed to advise the Independent Shareholders as to whether the revision of the continuing connected transactions contemplated under the Distribution Framework Agreement for the three years ending 31 December 2022 by the Company are fair and reasonable, on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole.

As at the Latest Practicable Date, we are not connected with the Directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any of their respective subsidiaries or their respective associates and, as at the Latest Practicable Date, did not have any shareholding, directly or indirectly, in any member of the Group or any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group. We are not aware of any relationships or interests between us and the Company or any other parties that could be reasonably be regarded as hindrance to our independence as defined under Rule 13.84 of the Hong Kong Listing Rule to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the revision of Annual Caps for the continuing connected transactions contemplated under the Distribution Framework Agreement for the three years ending 31 December 2022 by the Company. Apart from normal professional fees payable to us in connection with this appointment, no arrangements exist whereby we had received or will receive any fee or benefit from the Group and its associates. We have not acted as the independent financial adviser for the Company's other transactions in the past two years. Also we are not aware of the existence of or change in any circumstances that could affect our independence. Accordingly, we consider that we are eligible to give independent advice on the revision of Annual Caps for the continuing connected transactions contemplated under the Distribution Framework Agreement for the three years ending 31 December 2022 by the Company.

### **B. BASIS OF OUR OPINION AND RECOMMENDATION**

In forming our opinion and recommendation, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, management of the Company and its subsidiaries. We have no reason to believe that any information and

## LETTER FROM VINCO CAPITAL

representations relied on by us informing our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading.

We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular and that all expectations and intentions of the Directors, management of the Company and its subsidiaries, will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors, management of the Company and its subsidiaries. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed. We have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations provided to us by the Directors, management of the Company and its subsidiaries.

We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed. We have relied on such information and opinions and have not, however, conducted any independent verification of the information provided, nor have we carried out any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, 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 not contained in the Circular, the omission of which would make any statement in the Circular misleading.

We consider that we have reviewed all currently available information and documents, among others: (i) the annual report of the Company for the year ended 31 December 2019 (the “**Annual Report 2019**”); (ii) the interim report of the Company for the six months ended 30 June 2020 (the “**Interim Report 2020**”); (iii) the revised sales forecast for the three years ending 31 December 2022; (iv) the estimated demand from Tong Ren Tang Group for the Group’s products for the three years ending 31 December 2022; (v) sample agreements and relevant invoices for sale of products from the Group to independent third parties; (vi) internet desktop researches in relation to the Healthcare and Traditional Chinese Medicinal Industry in the PRC; and (vii) the internal control measures governing continuing connected transactions which are made available to us and enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our advice. Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the revision of the Annual Caps for the continuing connected transactions contemplated under the Distribution Framework Agreement, as referred to in Rule 13.80 of the Hong Kong Listing Rules (including the notes thereto).

## LETTER FROM VINCO CAPITAL

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their consideration on the revision of the Annual Caps for the continuing connected transactions contemplated under the Distribution Framework Agreement, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

### C. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee and Independent Shareholders in relation to the revision of the Annual Caps contemplated under the Distribution Framework Agreement, we have considered following principal factors and reasons set out below:

#### I. Information on the parties

##### *Information of the Company*

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

##### *Historical financial information of the Group*

Set out below is a summary of the audited consolidated financial information of the Group for the two years ended 31 December 2019 and the unaudited consolidated financial information of the Group for six months ended 30 June 2019 and 2020, as extracted from the relevant annual and interim reports of the Company respectively:

	For the year ended		For the six months ended	
	31 December	31 December	30 June	30 June
	2018	2019	2019	2020
	(audited)	(audited)	(unaudited)	(unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Revenue</b>	5,059,638	4,476,449	2,474,627	2,240,661
<b>Profit attributable to the owners of the Company</b>	677,815	417,650	382,631	271,650

## LETTER FROM VINCO CAPITAL

With reference to the Annual Report 2019, the revenue of the Group decreased by approximately 11.5% from RMB5,059.6 million for the year ended 31 December 2018 to RMB4,476.4 million for the year ended 31 December 2019. The decrease in revenue of approximately RMB583.2 million was mainly due to (i) GMP (Good Manufacturing Practice) recertification of products in Yizhuang factory and Liujiayao factory; and (ii) transition from old to new production bases namely Tong Ren Tang Technologies Tangshan and Daxing Production Base leading to decline in the Company's overall production volume.

The Group recorded a decrease in profit attributable to the owners of the Company by approximately 38.4% from RMB677.8 million for the year ended 31 December 2018 to RMB417.7 million for the year ended 31 December 2019. The decrease in profit attributable to the owners of the Company was mainly due to decrease in revenue as a result of the decline in overall production volume.

With reference to the Interim Report 2020, the revenue of the Group decreased by approximately 9.5% from RMB2,474.6 million from the six months ended 30 June 2019 to RMB2,240.7 million for the six months ended 30 June 2020. The decrease in revenue was mainly due to the decrease in customer flow as a result of the implemented reduction of business hours of retail pharmaceutical stores under the outbreak of the novel coronavirus (COVID-19) epidemic (the “**Epidemic**”).

The Group recorded a decrease in profit attributable to the owners of the Company of approximately 29.0% from RMB382.6 million for the six months ended 30 June 2019 to RMB271.7 million for the six months ended 30 June 2020. The decrease in profit attributable to the owners of the Company was mainly due to the decrease in revenue as a result of reduced business hours of retail pharmaceutical stores under the Epidemic.

### *Information of Tong Ren Tang Holdings*

Tong Ren Tang Holdings is principally engaged in the processing, manufacture and sale of Chinese medicinal materials, Chinese patent medicine, Chinese medicinal decoction pieces, medical food, warehousing and transportation, etc.. Beijing SASAC is the ultimate beneficial owner of Tong Ren Tang Holdings. Pursuant to the Program for the Reform of the Institutions of the People's Government of Beijing Municipality as approved by the Central Committee of the Communist Party of China and the State Council and the Circular of the People's Government of Beijing Municipality about the Establishment of Institutions, Beijing SASAC is established as a special institution directly under the Municipality Government and is authorized by the Municipality Government to represent the State to perform the duties of the state-owned assets contributor.

## **II. Reasons for and benefits of revising the Annual Caps**

As discussed with the Directors, the Board has been carefully monitoring the historical transacted amounts of the continuing connected transactions. Taking into account the increase in estimated demand for the Company's products from Tong Ren

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Tang Group, the Board envisages that the transaction between the Company and Tong Ren Tang Group for the three years ending 31 December 2022 would exceed the existing Annual Caps under the Distribution Framework Agreement. The Board therefore proposes to revise and increase the Annual Caps.

Set out below are (i) the existing Annual Caps for the three years ending 31 December 2022 under the Distribution Framework Agreement; (ii) the proposed revision of Annual Caps for the three years ending 31 December 2022 under the Distribution Framework Agreement; and (iii) the actual transaction amount for the nine months ended 30 September 2020:

	<b>For the year ending 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
<b>Existing Annual Caps</b>	1,300	1,500	1,700
<b>Proposed revised Annual Caps</b>	1,450	1,670	1,850
			<b>Nine months ended</b>
			<b>30 September 2020</b>
			<i>(RMB million)</i>
<b>Historical transaction amount</b>			939
<b>Utilisation rate</b>			72.2%

As depicted from the table above, we noted that, as at 30 September 2020, the utilisation rate for the year ending 31 December 2020 is at approximately 72.2%.

With reference to the Letter from the Board, the revised Annual Caps for the three years ending 31 December 2022 was determined with taking into consideration the following factors:

- (i) for the nine months ended 30 September 2020, the actual incurred amount of Relevant Products sold to the Tong Ren Tang Group by Tong Ren Tang Chinese Medicine Group was RMB165 million; meanwhile, Tong Ren Tang Chinese Medicine Group has received purchasing orders by Tong Ren Tang Group in October 2020 amounting to RMB45 million approximately and estimates that the projected sales for the two months ending 31 December 2020 will amount to around RMB90 million. Tong Ren Tang Chinese Medicine also expects that the demand of the Relevant Products sold to Tong Ren Tang Group by Tong Ren Tang Chinese Medicine will continuously increase in domestic market with a forecasted annual growth rate of 9% for the two years ending 31 December 2022 based on the projected sales in 2020. Based on the above, it is estimated that the Annual Caps for the sales of Relevant Products by Tong Ren Tang Chinese Medicine Group to Tong Ren Tang Group under the Distribution



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Framework Agreement will be raised by RMB81 million, RMB118 million, and RMB130 million respectively. Please refer to the announcement of Tong Ren Tang Chinese Medicine dated 6 November 2020 for details;

- (ii) for the six months ended 30 June 2020, the sales amount of major products of the Company, including Liuwei Dihuang Pills (六味地黃丸) series, Jinkui Shenqi Pills (金匱腎氣丸) series, Xihuang Pills (西黃丸) series increased by 16.66%, 5.42%, and 49.38% over the same period last year respectively, and sales amount of Shengmai Yin Liquid (生脈飲口服液) series more than doubled over the same period last year. Relying on expansion of the distribution network of Tong Ren Tang Group's "Tong Ren Tang" brand and the gradual promotion of the distribution model in which certain products are exclusively distributed by specialized companies of the Tong Ren Tang Group, the "Tong Ren Tang" branded retail drugstores owned by Tong Ren Tang Ltd. has increased by 22% in the past three years. The Group will continue to strengthen its cooperation with retail drugstores and each distribution network in the Tong Ren Tang Group, which may lead to an increase in sales amount of Relevant Products from the Group to the Tong Ren Tang Group under the Distribution Framework Agreement;
- (iii) following the outbreak of the COVID-19 epidemic, Chinese medicine has been widely used in the prevention and treatment of COVID-19, and the market demand for Chinese medicine is expanding. Huoxiang Zhengqi Liquid (藿香正氣水) and other products produced by the Group have been listed in the nation's "Diagnosis and Treatment Program of Pneumonia Infected by Novel Coronavirus." Based on the characteristics of the disease and the concept of traditional Chinese medicine treatment, and in response to the needs of the public to enhance immunity under the epidemic prevention and control measures, the Company have launched products of five categories — "health boosting, lung nourishment, pediatric medicine, anti-cancer, and kidney disease" targeting the "prevention, control, resistance, and maintenance" stages, which would further increase the sales to the distribution network of the Tong Ren Tang Group. Coupled with the gradual improvement of the current economic and market conditions in the PRC, it is expected that the Group's sales of Relevant Products to the Tong Ren Tang Group will further increase under the Distribution Framework Agreement;
- (iv) the Group always had variety development at its core, covering Chinese patent medicine (including pill products, tablet products, granules, oral liquid, gels and other dosage products), food, cosmetics and others. In the future, the Group will continuously endeavor to enrich product variety and optimize of product structure through research and development, as well as product introduction, which is expected to drive the increase of the actual transaction amount under the Distribution Framework Agreement in the future with the enriched varieties and categories of Relevant Products sold by the Group to Tong Ren Tang Group under the Distribution Framework Agreement; and

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- (v) taking into account of the above items (ii) (iii) and (iv), including the reliance on the distribution network of Tong Ren Tang Group in the sales of the major products, the continuous efforts in the enrichment of the product variety, and the improvement of the market conditions in the PRC, the sales amount of the Relevant Products sold to Tong Ren Tang Group by the Group under the Distribution Framework Agreement is expected to see an annual increase of around 10% for the three years ending 31 December 2022, and a buffer of around 5% is reserved for any unexpected increase in the sales amount.

As confirmed by the Directors, the revision of the Annual Caps for the continuing connected transactions contemplated under the Distribution Framework Agreement will be conducted in line with the pricing and payment terms adopted by the Group as agreed in the Distribution Framework Agreement. We have reviewed the Board resolution and the Distribution Framework Agreement and, save for the proposed revision of the Annual Caps for the three years ending 31 December 2022, we found the existing major terms and conditions under the Distribution Framework Agreement remain unchanged.

For our due diligence purpose, we have obtained and reviewed the internal control measures governing the continuing connected transactions of the Group. Pursuant to the internal control measures, (i) the continuing connected transactions contemplated thereunder the Distribution Framework Agreement shall be strictly in compliance with the approved terms and conditions, and any relevant revision of such terms and conditions would require re-performing appropriate approval process; (ii) the pricing terms, payment terms and transaction amount will be continuously monitored by the relevant sales departments of members of the Group, and the audit department will conduct relevant internal control and sample review on the relevant connected transaction every six months to ensure the relevant transactions are entered into on normal commercial terms no less favourable than those available to independent third parties; (iii) the sales department will monitor in relation to pricing of Chinese patent medicine products with the prevailing market and consideration of cost factor, and put forward the proposal of price adjustment for approval by the deputy general manager and board of managers after discussion with all relevant departments of the Company; (iv) the financial department will be responsible for summarising the continuing connected transactions on a monthly basis, and will be reported to by relevant sales departments upon any discovery of possible exceeding of the annual caps of the continuing connected transactions. Applications for revision of annual caps considered necessary by the relevant sales departments will be submitted for approval to the board of Directors and the shareholders' general meeting. The person in charge of relevant sales departments will ensure that the continuing connected transactions will not exceed the existing annual caps before the approval; (v) the Company will ensure that its subsidiaries will comply with the above-mentioned pricing policies in respect of the continuing connected transactions contemplated under the Distribution Framework Agreement; (vi) the independent non-executive Directors will review the continuing connected transactions under the Distribution Framework Agreement to ensure all transactions contemplated thereunder are entered into on normal commercial terms, fair and reasonable to the Group and are in terms no less favourable



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than those available to independent third parties; and (vii) the auditors of the Company will also conduct an annual review on the pricing and annual caps of such continuing connected transactions.

Taking into consideration that (i) the financial department will be responsible for summarising the continuing connected transactions on a monthly basis; (ii) the relevant sales departments will ensure to report upon any possible exceeding of annual caps and will not exceed the existing annual caps before the approval for revision is complete; (iii) the independent non-executive Directors and auditors of the Company will conduct review in relation to the terms of the continuing connected transactions, we are of the view that the internal control measures adopted by the Company on the continuing connected transactions is effective to ensure that the transactions are in accordance with the terms of the Distribution Framework Agreement and that the Annual Caps are not exceeded.

We have also obtained and reviewed five sample sale contracts and corresponding invoices for sale of the Company's products to both (i) independent third parties; and (ii) Tong Ren Tang Group, for the nine months ended 30 September 2020 selected on a random basis from the sales listings for the corresponding period. Provided that the samples selected cover the general types of products sold by the Company to both independent third parties and Tong Ren Tang Group during the period under the Distribution Framework Agreement, we consider the samples selected are representative and provide meaningful basis for comparison analysis on the pricing of the transactions. From the sample transaction documents, we noted that there were no material difference in terms in relation to (i) unit price; (ii) payment terms; and (iii) delivery method offered to the independent third parties compared to those offered to the Tong Ren Tang Group. Therefore, we consider that the pricing and payment terms offered to Tong Ren Tang Group were no less favourable than those charged to independent third parties, and in line with the Distribution Framework Agreement.

In order to assess the reasonableness of the revision of Annual Caps, we have obtained and reviewed the Company's revised sales forecast to Tong Ren Tang Group for the three years ending 31 December 2022. As discussed with the Directors, we understood that the initial assumption in estimating the existing annual caps was based on the historical transaction amount of the Company's products for the two years ended 31 December 2018, workshop modifications during its transition period, and the estimated customers' demand from the sales network in Tong Ren Tang Group. As confirmed by the Directors, we understood that having considered the stabilisation of the Epidemic in the PRC, Tong Ren Tang Group's sales network and retail outlets have resumed operation at normal business hours. For the nine months ended 30 September 2020, the Company's sales to Tong Ren Tang Group amounted to approximately RMB939 million exceeding the sales amount by approximately 30.4% for the same period last year, while the sales under Tong Ren Tang Chinese Medicine Group amounted to approximately RMB165 million, exceeding the sales amount by approximately 50% for the same period last year.

Based on our review of the Annual Report 2019, we noted that the Group faced shortage of production and supply of products during 2019. We understood that the Group's production lines in Yizhuang factory, Liujiayao factory and other relevant

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production units required GMP recertification (which would previously have required renewal for every five years), meanwhile two new production bases namely Tong Ren Tang Tangshan and Tong Ren Tang Technologies Daxing Production Base required partial product transfer from old to newly-built production base during 2019. As a result, the production progress of dosage products including pills and liquid preparation was partially affected, which directly led to a decline in production volume of major products for the year ended 31 December 2019. Based on our review of the Interim Report 2020 and as confirmed by the Directors, we understood that the production lines of the Company have completed the required transition at the present stage and are operating under the advantages of newly-built production capacity. We obtained and reviewed Company's production progress summary and forecast for the year ending 31 December 2020. As confirmed with the Directors, the Company's production volume increased by more than 30% for the nine months ended 30 September 2020 compared to its corresponding period last year.

Based on the Company's revised sales forecast for the three years ending 31 December 2022, we understood that Tong Ren Tang Chinese Medicine Group estimated increase in sale within the domestic market of the PRC by approximately RMB81 million, RMB118 million and RMB130 million for the three years ending 31 December 2022 respectively. As discussed with the Directors, we understood that Tong Ren Tang Chinese Medicine Group's estimated increase in sale to Tong Ren Tang Group of 9% was based on historical sales amount and the estimated annual growth of the Group to Tong Ren Tang Group of around 10%. As part of our due diligence, we obtained and reviewed the sales contracts between Tong Ren Tang Chinese Medicine Group and Tong Ren Tang Group during October 2020 and ascertained that the sales amount was approximately RMB45 million, accounting for more than 56% of Tong Ren Tang Chinese Medicine Group's aforementioned estimated increase for the year ending 31 December 2020. As discussed with the Directors, subject to the market demand and changes due to the Epidemic, the Company categorised its products in accordance to different diseases for subsequent promotion in selling the related products. We obtained and reviewed the sales summary of the Company's major products for the nine months ended 30 September 2019 and 2020 respectively. We noted that the Company's sale of products in relation to kidney disease, cancer, tonic supplements and lung nourishment had increased by approximately 24.1%, 41.3%, 19.1% and 7.0% for the nine months ended 30 September 2020 compared to its corresponding period last year. Further to the changes due to the Epidemic, we also understood that the Group had only initiated production and sales of disinfectant products during the third quarter of 2020.

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We understood from the Directors that the new projections and estimated annual increase in sales amount under the Distribution Framework Agreement for the three years ending 31 December 2022 was based on the aforementioned changes above. We also understood that a buffer of approximately 5% is reserved under the proposed revised annual caps for unexpected increase in the sales amount. Having considered that (i) the buffer may also be subject to unexpected fluctuation of exchange rate between Chinese Yuan and Hong Kong Dollar; and (ii) a difference of approximately 8.5% was recorded between the lowest and highest exchange rate between Chinese Yuan and Hong Kong Dollar from 1 January 2020 to the Latest Practicable Date, we are of the view that the buffer reserved of approximately 5% is fair and reasonable. We subsequently noted that the estimated increase in sales may require the Company to revise the existing annual caps for the three years ending 31 December 2022.

Based on our desktop research on healthcare in the PRC, we noted that healthcare and pharmaceutical industry remains one of the focus areas of the 13th Five-Year Plan. In 2016, the National Health and Family Planning Commission announced the Healthy China 2030 blueprint covering public health services, environmental management, the Chinese medical industry, and food and drug safety. The blueprint was established as a national strategy to increase awareness of health, and consist five specific goals to improve the level of health nationwide, control major risk factors, increase the capacity of health service, enlarge the scale of the health industry, and perfect the health service system. Although the 13th Five-Year Plan will soon be replaced in 2021, an action plan branching out from the Healthy China 2030 blueprint was released in July 2019 specifying targets to be achieved in the ten years from 2020 to 2030. The plan focuses on promotion of healthy lifestyles at various stages of life and disease prevention, including initiatives to increase awareness of healthier eating and exercising. It remains foreseeable that the attention for healthcare in the PRC will stay relevant in the next ten years leading to the projected goals to be achieved by 2030.

With reference to an article titled “China’s healthcare sector promising for 2020 and beyond” published on 25 December 2019 by China Daily, a major online Chinese newspaper, the growing healthcare sector in China is mainly contributed by China’s recent economic rise, leading overall higher living standards and affordability of healthcare services. It is speculated that China’s potential in healthcare market is expected to reach RMB198 billion in 2026, increasing tenfold from 2016. It is also understood that the growth of the healthcare sector is expected to remain affordable for all citizens. According to the latest information available from the World Health Organisation Global Health Expenditure Database of the World Bank, the health expenditure in the United States amounted to approximately 17.1% of their GDP in 2017, representing a significantly higher percentage than China for the same year at approximately 5.2%. With reference to an article titled “China’s Healthcare Industry — Opportunities in Telemedicine and Digital Healthcare” published on 31 July 2020 by China Briefing, a research house specialising in business intelligence on China, indicated that despite taking into account of the COVID-19 epidemic, analysts still estimate China’s GDP growth to be between 2.0% to 2.5% in 2020 with healthcare spending also projected to rise. As the

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Chinese government had already laid out its long-term healthcare initiatives, it is speculated by China Briefing that healthcare will feature more heavily in the 14th Five-Year Plan covering 2021 to 2025 than it did in the previous Five-Year Plan.

We further noted from an article titled “Traditional Chinese medicine plays big role in COVID-19 fight” published on 30 September 2020 by China Internet Information Center, a state-run web portal under the State Council Information Office and China International Publishing Group in Beijing, that traditional Chinese medicine had been involved in the treatment of a total of 74,866 domestic confirmed COVID-19 cases as at 30 March 2020, amounting to approximately 91.9% cases in the PRC. With reference to an article titled “Covid-19: China pushes traditional remedies amid outbreak” published on 28 June 2020 by BBC News, a major news division under British Broadcasting Corporation, we further noted that although the overall effectiveness of traditional Chinese medicine is deemed inconclusive by the US National Institutes of Health, the China’s State Council reportedly estimated the growth of traditional Chinese medicinal industry to reach approximately US\$420 billion by the end of 2020. Having considered above, we are of the view that the estimated demand for the Company’s products is in line with the attention and projected growth of healthcare and traditional Chinese medicinal industry in the PRC.

Having considered that (i) the sales of the Group and Tong Ren Tang Chinese Medicine Group for the nine months ended 30 September 2020 had exceeded the amount for the same period last year; (ii) the revision of the Annual Caps was determined with reference to the increase in estimated demand for the Group’s products from Tong Ren Tang Group; (iii) the assumption in estimating demand for the Company’s products is in line with the growth of healthcare and tradition Chinese medicinal industry in the PRC under the Epidemic; (iv) the revision of the Annual Caps under the Distribution Framework Agreement will prevent the Group from exceeding the existing annual caps; and (v) the transactions contemplated under the Distribution Framework Agreement are in the ordinary and usual course of business of the Group considering the existing major terms and conditions remain unchanged, we are of the view that the revision of Annual Caps under the Distribution Framework Agreement is fair and reasonable so far as the Independent Shareholders are concerned.

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### D. RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that the revision of Annual Caps under the Distribution Framework Agreement was entered into on normal commercial terms following arm's length negotiations between the parties thereto and in the ordinary and usual course of business of the Group. We also consider that the terms of proposed revision of the Annual Caps are fair and reasonable, and in the interests of the Company and the Shareholders as a whole. Therefore, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the revision of Annual Caps for the continuing connected transactions contemplated under the Distribution Framework Agreement.

Yours faithfully,  
For and on behalf of  
**Vinco Capital Limited**  
**Alister Chung**  
*Managing Director*

*Note:* Mr. Alister Chung is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of Vinco Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of independent financial advisory services for various transactions involving companies listed in Hong Kong for over 10 years.

## 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 the chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as 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, as was known to the Directors, the following persons (other than the Directors, Supervisors and the chief executive of the Company) had interests and 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:

Name	Capacity	Number of shares	Percentage of Domestic Shares	Percentage of H Shares	Percentage of total issued share capital
Tong Ren Tang Ltd.	Beneficial owner	600,000,000 (L) (Note 1)	92.01%	—	46.85%
Tong Ren Tang Holdings (Note 2)	Interest of controlled corporation by the substantial shareholder	600,000,000 (L) (Note 1)	92.01%	—	46.85%
	Beneficial owner	9,480,000 (L) (Note 1)	1.45%	—	0.74%
	Beneficial owner	11,630,000 (L) (Note 1)	—	1.85%	0.91%
Total		621,110,000 (L) (Note 1)	93.46%	1.85%	48.49%

Name	Capacity	Number of shares	Percentage of Domestic Shares	Percentage of H Shares	Percentage of total issued share capital
Yuan Sai Nan ( <i>Note 3</i> )	Beneficial owner	35,732,000 (L) ( <i>Note 1</i> )	—	5.68%	2.79%
Mitsubishi UFJ Financial Group, Inc ( <i>Note 4</i> )	Interest of controlled corporation by the substantial shareholder	37,465,000 (L) ( <i>Note 1</i> )	—	5.95%	2.93%
Hillhouse Capital Advisors, Ltd. ( <i>Note 5</i> )	Investment manager	47,663,000 (L) ( <i>Note 1</i> )	—	7.58%	3.72%
Citigroup Inc. ( <i>Note 6</i> )	Interest of controlled corporation by the substantial shareholder,	37,613,720 (L)	—	2.93%	5.98%
	Person having a security interest in shares	340,000 (S) ( <i>Note 1</i> )	—	0.02%	0.05%
	Custodian corporation/ approved lending agent	20,219,350 (P) ( <i>Note 1</i> )	—	1.57%	3.21%

*Notes:*

Information disclosed above is based on the data published on the HKExnews website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://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. Thus, 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 domestic shares and 11,630,000 H shares of the Company.
- (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 37,465,000 H shares of the Company in long position through a series of corporations under its control.
- (5) 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. 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) As at the Latest Practicable Date, Citigroup Inc. indirectly held 426,370 H shares of the Company in long position and 340,000 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 20,219,350 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 interests and 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 2019, 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, Supervisors 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 2019, 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' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the following Directors 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	Positions held in specific companies	
	Tong Ren Tang Holdings	Tong Ren Tang Ltd.
Gu Hai Ou ( <i>Chairman</i> )	Deputy general manager	—
Jin Tao	General manager assistant	—
Ma Guan Yu	Deputy director (department head) of the Legal Affairs Department (Brand Risk Control Department)	—

## 8. LITIGATION

As far as the Directors were aware, 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 threatened by or against any member of the Group as at the Latest Practicable Date.

## 9. EXPERT'S QUALIFICATION AND CONSENT

Vinco Capital 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 Vinco Capital Limited who has given its opinions or advices which are contained in this circular:

Name	Qualification
Vinco Capital Limited	a licensed corporation to carry out type 1 (dealing in securities), and type 6 (advising on corporate finance) regulated activities as defined under the SFO

**10. EXPERT'S INTERESTS**

As at the Latest Practicable Date, Vinco 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 2019, 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, Beijing, the PRC.
- (b) The share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Limited at Shops 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 16 December 2020:

- (a) the Distribution Framework Agreement;
- (b) the letter from the Independent Board Committee as set out on pages 13 to 14 of this circular;
- (c) the letter from Vinco Capital as set out on pages 15 to 27 of this circular; and
- (d) the written consent of Vinco Capital referred to in this Appendix.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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 an extraordinary general meeting (the “EGM”) of Tong Ren Tang Technologies Co. Ltd. (the “Company”) will be held at No. 20 Nansanhuan Zhonglu, Fengtai District, Beijing, the People's Republic of China (the “PRC”) at 9:30 a.m. on Wednesday, 23 December 2020, for the purpose of considering and, if thought fit, passing the following resolution:

**As Ordinary Resolution**

1. To consider and, if thought fit, to approve the revision of the annual caps for the continuing connected transactions contemplated under the Distribution Framework Agreement for the three years ending 31 December 2022.

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

Beijing, the PRC  
2 December 2020

*As at the date of this notice, the Board comprises Mr. Gu Hai Ou, Mr. Jin Tao, Mr. Ma Guan Yu, 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 Limited, 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 Monday, 23 November 2020 shall be entitled to attend the EGM.

## NOTICE OF EXTRAORDINARY GENERAL MEETING

### 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 appointor 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 appointor, 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) the office address of the Company for holders of domestic shares; and (ii) Hong Kong Registrars Limited, the H share registrar and transfer office of the Company in Hong Kong, for holders of H 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

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.

### 4. CLOSURE OF REGISTER OF MEMBERS

As stated in the announcement dated 6 November 2020, the register of members of the Company will be closed from Monday, 23 November 2020 to Wednesday, 23 December 2020 (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 must be lodged with Hong Kong Registrars Limited, 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, 20 November 2020.

### 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 Limited, the H share registrar and transfer office of the Company in Hong Kong, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.