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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.
北京同仁堂科技发展股份有限公司

(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;
PROPOSED APPOINTMENT OF NEW DIRECTOR;
AND
NOTICE OF EGM**

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



A letter from the Board is set out on pages 6 to 28 of this circular. A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 29 to 30 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 31 to 54 of this circular.

A notice convening the EGM to be held at 9:30 a.m. on Thursday, 22 December 2022 at No. 20 Nansanhuan Zhonglu, Fengtai District, Beijing, the PRC, is set out on pages 60 to 62 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.

2 December 2022

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DEFINITIONS

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

“associate(s)”	has the meaning ascribed under the Hong Kong Listing Rules
“Baitu Information”	means Beijing Xiao Baitu Information Technology Co., Ltd. (北京小白兔信息技術有限公司), a company established in the PRC with limited liability
“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 (Stock Code: 1666)
“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 (北京市中關村科技園區大興生物醫藥基地)
“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, 16 October 2019 and 28 November 2022, 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 the non-exclusive distributor of the Group, may purchase products from the Group and then distribute the same to retailers and/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

DEFINITIONS

“EGM”	means the extraordinary general meeting of the Company to be convened at 9:30 a.m. on Thursday, 22 December 2022 at No. 20 Nanshuan 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, and the proposed annual caps for the respective continuing connected transactions contemplated thereunder, as well as the proposed appointment of new Director
“Group”	means the Company and its subsidiaries
“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 main board of 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 “Octal Capital”	means Octal 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

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“Independent Shareholders”	means Shareholders other than Tong Ren Tang Holdings and its associates
“Latest Practicable Date”	means 28 November 2022, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“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, 16 October 2019 and 28 November 2022, 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 Group’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 Province
“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 approximately 48.24% equity interest in the Company

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“Tong Ren Tang Group”	means Tong Ren Tang Holdings and its subsidiaries and associates (excluding the Group, but including entities constitute connected subsidiaries of the Company pursuant to the Hong Kong Listing Rules)
“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 (stock code: 600085.SH), and is the controlling shareholder of the Company
“Tong Ren Tang Commercial”	means Beijing Tong Ren Tang Commercial Investment Group Co., Ltd. (北京同仁堂商業投資集團有限公司), a company established in the PRC with limited liability, in which Tong Ren Tang Ltd. holds 51.98% equity interest
“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 non-wholly owned and connected 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 (stock code: 3613), and its subsidiaries
“Tong Ren Tang Medical Caring”	means Beijing Tong Ren Tang Medical Caring Industry Investment Group Co., Ltd. (北京同仁堂醫養產業投資集團有限公司), a company established in the PRC with limited liability, and a direct wholly-owned subsidiary of Tong Ren Tang Holdings
“Tong Ren Tang Technologies Tangshan”	means Beijing Tong Ren Tang Technologies (Tangshan) Co., Ltd. (北京同仁堂科技發展(唐山)有限公司), located in Yutian County, Tangshan City, Hebei Province, which is a wholly-owned subsidiary of the Company
“Tong Ren Tang WM Dianorm”	means Beijing Tong Ren Tang WM Dianorm Biotech Co., Ltd. (北京同仁堂麥爾海生物技術有限公司), a company established in the PRC with limited liability. Tong Ren Tang Chinese Medicine and WM Dianorm Biotech Co., Ltd. (麥爾海生物技術有限公司) entered into a sale and purchase agreement on 10 February 2021, pursuant to which Tong Ren Tang Chinese Medicine acquired 40% of the equity interest of Tong Ren Tang WM Dianorm

DEFINITIONS

- “Nansanhuan Zhonglu Drugstore” means Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Ltd. (北京同仁堂南三環中路藥店有限公司), a company established in the PRC with limited liability. The Company and Tong Ren Tang Medical Caring entered into an asset transfer agreement and supplementary agreements on 20 June 2022, pursuant to which the Company agreed to dispose and Tong Ren Tang Medical Caring agreed to purchase, 49% of the equity interest in Nansanhuan Zhonglu Drugstore
- “Tong Ren Tang Second Traditional Chinese Medicine Hospital” means Beijing Tong Ren Tang Second Traditional Chinese Medicine Hospital, Co., Ltd. (北京同仁堂第二中醫醫院有限公司), a company established in the PRC with limited liability. The Company and Tong Ren Tang Medical Caring entered into an asset agreement and supplementary agreements on 20 June 2022, pursuant to which the Company agreed to dispose and Tong Ren Tang Medical Caring agreed to purchase 49% of the equity interest in Tong Ren Tang Second Traditional Chinese Medicine Hospital



Tong Ren Tang Technologies Co. Ltd.
北京同仁堂科技發展股份有限公司

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(Stock Code: 1666)

Executive Directors:

Mr. Gu Hai Ou (*Chairman*)
Mr. Wang Yu Wei
Ms. Feng Zhi Mei

Non-executive Directors:

Mr. Jin Tao
Mr. Ma Guan Yu
Ms. Guo Ya Qing

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 2022

To the Shareholders

Dear Sir or Madam,

**PROPOSED RENEWAL OF
CONTINUING CONNECTED TRANSACTIONS;
AND
PROPOSED APPOINTMENT OF NEW DIRECTOR**

1. INTRODUCTION

Reference is made to (i) the announcement of the Company dated 28 November 2022, in relation to the proposed renewal of continuing connected transactions; and (ii) the announcement of the Company dated 24 August 2022 in relation to the change of Directors.

On 28 November 2022, 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 2025. Pursuant to the Hong Kong Listing Rules, both of the

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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.

On 24 August 2022, Mr. Ma Guan Yu (“**Mr. Ma**”) tendered his resignation from the position as a non-executive Director due to work changes. The resignation of Mr. Ma will take effect upon the new non-executive Director being elected at the EGM. On the same date, the Board proposed to appoint Ms. Feng Li (“**Ms. Feng**”) as a non-executive Director. The proposed appointment is subject to the approval by the Shareholders at the EGM.

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 2025; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from Octal Capital to the Independent Board Committee and the Independent Shareholders; (iv) detailed information regarding Ms. Feng; and (v) a notice convening the EGM.

2. PROPOSED RENEWAL OF THE DISTRIBUTION FRAMEWORK AGREEMENT

Major Terms of the Renewed Distribution Framework Agreement

Renewal Date: 28 November 2022

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 2023 to 31 December 2025.

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 Group and Tong Ren Tang Group according to market conditions and stated in the individual implementation agreement.

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Pricing Policies: 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 the price of the products sold 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 with reference to the cost of the raw materials, the cost of labour and the manufacturing expense of the Group, etc.; and (ii) the profit margin shall be determined by reference to the prevailing market rate 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 45%).

Payment of the Fees: Payment arrangement will be negotiated by the parties participated in the specific transactions contemplated under the renewed Distribution Framework Agreement 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 credit 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.

Any such implementation agreement shall be subject to the terms and conditions of the renewed Distribution Framework Agreement, and the relevant annual caps for the continuing connected transaction contemplated thereunder.

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

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Annual Caps

Historical Transaction Amount

The historical transaction amount under the Distribution Framework Agreement for the two years ended 31 December 2021 and for the nine months ended 30 September 2022 is set out as below:

	Year ended 31 December 2020	Year ended 31 December 2021	Nine months ended 30 September 2022
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Historical Transaction Amount	1,262.162	1,297.032	1,266.468

Historical Annual Caps and Utilization Rate

The annual caps for the transactions contemplated under the Distribution Framework Agreement and the utilization rate of each of the historical annual caps for the three years ending 31 December 2022 are set out as below:

	Year ended 31 December 2020	Year ended 31 December 2021	Year ending 31 December 2022
Historical Annual Caps <i>(RMB million)</i>	1,450	1,670	1,850
Utilization Rate (%)	87.0%	77.7%	91.2% ^{<i>(Note)</i>}

Note: The utilization rate is calculated by dividing the historical transaction amount for the nine months ended 30 September 2022 by the pro-rated annual cap.

The Directors have been monitoring the transaction amount contemplated under the Distribution Framework Agreement, and for the two years ended 31 December 2021, the annual cap for each year has not been exceeded. As at the Latest Practicable Date and for the year ending 31 December 2022, the annual cap for the transactions contemplated under the Distribution Framework Agreement for the year ending 31 December 2022 has not been and is not expected to be exceeded.

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Proposed Annual Caps

The proposed annual caps for the transactions contemplated under the renewed Distribution Framework Agreement for the three years ending 31 December 2025 are set out as below:

	Year ending 31 December 2023	Year ending 31 December 2024	Year ending 31 December 2025
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Proposed Annual Caps	2,680	3,000	3,450

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

- (i) the historical transaction amount for the two years ended 31 December 2021 and the nine months ended 30 September 2022: for the year ended 31 December 2020, the transaction amount under the Distribution Framework Agreement amounted to RMB1,262.162 million, with an utilization rate of 87.0%; for the year ended 31 December 2021, the transaction amount under the Distribution Framework Agreement amounted to RMB1,297.032 million, with an utilization rate of 77.7%; and for the nine months ended 30 September 2022, the transaction amount under the Distribution Framework Agreement amounted to RMB1,266.468 million, with an utilization rate of 91.2%;
- (ii) with the initiation of Daxing Branch and Tong Ren Tang Technologies Tangshan in the second half of 2019, the total production value and production volume of the Group's Chinese patent medicine for 2021 increased by 17.9% and 4.2% as compared to that of 2020, and is expected to increase steadily in the future. As a significant portion of the Group's products were sold and will continue to be sold through the "Tong Ren Tang" brand distribution channel of the Tong Ren Tang Group, it is expected that the transaction amount under the renewed Distribution Framework Agreement will continue to increase in the coming three years;
- (iii) since 2020, despite the recurring COVID-19 pandemic and significant downward pressure on the economy, the Group conducted careful analysis on the market environment, took proactive actions, adapted to the new normal of development and grasped development opportunities, reached a 2.92% increase in sales revenue for 2020 as compared to 2019, a 17.21% increase in sales revenue for 2021 as compared to 2020, and a 8.99% increase in sales revenue for 2022 first half as compared to 2021 first half, which illustrated that the overall operation of the Group continued to improve. Benefiting from the growing of the Group's sales revenue, as compared to 2019, the actual transaction amount under the Distribution Framework Agreement increased by

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approximately 36.10% for 2020, and by approximately 39.86% for 2021. As a significant portion of the Group's products were sold and will continue to be sold through the "Tong Ren Tang" brand distribution channel of the Tong Ren Tang Group and taking into consideration of such growing trend, the Company expects that the transaction amount under the renewed Distribution Framework Agreement will continue to grow. Meanwhile, as of 31 December 2021, additional two and four series of products of the Group achieved a single-product sales amount of more than RMB100 million and RMB5 million, compared to that as of 31 December 2020, which illustrated that the product series of the Group continued to expand. Among major products of the Group, for the six months ended 30 June 2022, the sales amount of Liuwei Dihuang Pills (六味地黃丸) series, Jinkui Shenqi Pills (金匱腎氣丸) series, Niuhuang Jiedu Pills (牛黃解毒片) series, Jiawei Xiaoyao Pills (加味逍遙丸) series, Shengmai Liquor (生脈飲) series and Ejiao (阿膠) series increased by 17%, 7%, 5%, 66%, 26% and 30% as compared to the same period of the previous year. Benefiting from the development of the large-variety-strategy, for the six months ended 30 June 2022, the sales revenue of Niuhuang Jiangya Pills (牛黃降壓丸) series, Zhibai Dihuang Pills (知柏地黃丸) series, Qiju Dihuang Pills (杞菊地黃丸) series, and Fuzi Lizhong Pills (附子理中丸) series all achieved double-digit growth as compared with the same period of the previous year. In addition to the Chinese patent medicine, product series of the Group's subsidiaries cover food, cosmetics, disinfectant products and so on, the Company will promote its subsidiaries to rely on their own professional positioning, achieve in-depth development, and constantly expand the product fields and sales revenue. In the future, the Company will continue to focus on modern traditional Chinese medicine, seize the opportunity of the development of traditional Chinese medicine, continue to focus on the customer-centric approach, work under the guidance of the large-variety-strategy, continuously refine the products series of "treatment of chronic disease, treatment of foreseeable disease, non-medicine, pediatric drugs, cancer prevention and anti-cancer drugs, Tong Ren Tang special medicine" and boost the overall sales volume of related products. The Company will also continue to enrich the diversity of products to be sold to Tong Ren Tang Group by the Group under the Distribution Framework Agreement through product development and introduction. Accordingly, the Company expects that the transaction amount under the renewed Distribution Framework Agreement will continue to grow;

- (iv) reference is made to the announcement of the Company dated 20 June 2022, the Company and Tong Ren Tang Medical Caring entered into an asset transfer agreement, pursuant to which Tong Ren Tang Medical Caring purchased 49% of the equity interest in Nansanhuan Zhonglu Drugstore and 49% of the equity interest in Tong Ren Tang Second Traditional Chinese Medicine Hospital at a consideration of RMB19,376,000 and RMB42,011,000 respectively. Upon the completion of the abovementioned transactions, Nansanhuan Zhonglu Drugstore and Tong Ren Tang Second Traditional Chinese Medicine Hospital became connected subsidiaries of the Company. Meanwhile, reference is made to the announcement of Tong Ren Tang Chinese Medicine dated 10 February 2021,

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Tong Ren Tang Chinese Medicine entered into a sale and purchase agreement with WM Dianorm Biotech Co., Limited (麥爾海生物技術有限公司), pursuant to which Tong Ren Tang Chinese Medicine acquired 40% of the equity interest of Tong Ren Tang WM Dianorm. Upon the completion of the abovementioned transaction, Tong Ren Tang WM Dianorm became a connected subsidiary of the Company. Transactions between the Company and Nansanhuan Zhonglu Drugstore, Tong Ren Tang Second Traditional Chinese Medicine Hospital and Tong Ren Tang WM Dianorm in relation to the sale of the Group's products also constitute connected transactions under the Distribution Framework Agreement. Accordingly, the Company expects that the transaction amount under the renewed Distribution Framework Agreement will continue to grow;

- (v) reference is made to the Company's announcement dated 25 May 2021, the Company established a joint venture for engaging in the business of e-commerce with Tong Ren Tang Ltd., Tong Ren Tang Commercial and Baitu Information. Upon the commencement of the e-commerce platform, the proposed annual caps have been adjusted upward by RMB310 million, RMB310 million and RMB330 million in relation to the forecast sales transactions between the Group and Tong Ren Tang Group to support the operation of the upcoming e-commerce platform in the three years ending 31 December 2025, respectively. After taking into account of the sales value of the Group's Chinese medicine products on third party e-commerce platforms with approximately RMB200 million a year to forecast the transaction amount between the Group and Tong Ren Tang Group in relation to the e-commerce platform to be around RMB310 million during 2023 and 2024, and assuming the operation of the e-commerce platform getting mature and having higher online market share in 2025, the estimated sales transactions will grow to the level of RMB330 million. Accordingly, the Company expects that the transaction scope and transaction amount under the renewed Distribution Framework Agreement will continue to grow;
- (vi) it is expected that the expansion of the sales network of "Tong Ren Tang" brand of Tong Ren Tang Group will also lead to an increase in transaction volume under the renewed Distribution Framework Agreement. According to the public information of Tong Ren Tang Ltd.: (i) as of 30 June 2022, Tong Ren Tang Ltd. has 933 "Tong Ren Tang" brand retail pharmacies, which have been increased from 880 retail pharmacies in 2020; and (ii) as compared with 2020, the sales revenue of retail pharmacies increased by approximately 12.6% in 2021. In the future, the Group will continue to strengthen its cooperation with retail pharmacies under "Tong Ren Tang" brand, make full use of the brand advantages, professionalism, and standardized services and customer resources of "Tong Ren Tang" brand sales network to promote interactive marketing with consumers, thus driving the growth of terminal sales. The major component of the proposed annual caps of the Distribution Framework Agreement are the sales of the products of the Group (excluding Tong Ren Tang Chinese Medicine) through the distribution channel of Tong Ren Tang Group, and the Company expects that such transaction amount will reach

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approximately RMB1,636 million for 2022, and will further increase by 15% on a yearly basis in the coming three years. Such growth rate is made after taking into account of the compound annual growth rate of sale revenue of the Group's top 5 product series from 2019 to 2021, which amounted to approximately 10.35%. Furthermore, the increase in the number of retail pharmacies under "Tong Ren Tang" brand 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;

- (vii) 2025 will be the last year of the Group's "14th Five-Year Plan". To ensure the achievement of the Group's "14th Five-Year Plan", from 2023 to 2025, the Group will accelerate to build its grand health industrial cluster with traditional Chinese medicine as core business, functional household chemical products as growing business, gel products and disinfectant products as business with growth potential. In the future, the sales amount of the Group's product series will continue to grow, which will result in the corresponding increase in the transaction amount under the renewed Distribution Framework Agreement; and
- (viii) in consideration of the above reasons, including the full use of the sales network of "Tong Ren Tang" brand, the continuing optimization of the construction of products, and the recovery of market conditions and overall economy in the PRC, it is expected that the sales volume under the Distribution Framework Agreement between the Company and Tong Ren Tang Holdings will increase by over 40% on a yearly basis for 2023, and 10% to 15% on a yearly basis for 2024 and 2025. In addition, an additional buffer of 5% 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 benefits of the 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 utilization of the sales network of Tong Ren Tang Group to distribute the Group's products 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 and the Independent Board Committee 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 the Shareholders as a whole.

LETTER FROM THE BOARD

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 has adopted 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;
- (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 relevant management policies 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 comply with the relevant management policies 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) 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 review 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 by 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

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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 the 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 original annual caps;

- (e) 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, so as 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 the minority Shareholders as a whole.

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3. PROPOSED RENEWAL OF THE MASTER PROCUREMENT AGREEMENT

Major Terms of the Renewed Master Procurement Agreement

Renewal Date: 28 November 2022

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 2023 to 31 December 2025.

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 a non-exclusive supplier of the Group, members of Tong Ren Tang Group may, from time to time, supply the Relevant Products to the Group.

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

- the Relevant Products supplied to the Group must satisfy the Pharmacopoeia of the People's Republic of China (《中華人民共和國藥典》) standard and the internal quality standard of the Company. The Group has maintained a list of qualified suppliers (including Tong Ren Tang Group) which are able to provide the Relevant Products that satisfy the abovementioned standards. For each specific transaction, the Company shall negotiate the detailed terms and conditions of the supply of the Relevant Products with different qualified suppliers (including Tong Ren Tang Group, and at least two independent qualified suppliers in the same or surrounding areas) on a fair competition basis through bidding process, competitive negotiation, business inquiry and/or similar procedures. In the abovementioned price determination procedure, the quality of the Relevant Products and the price provided by different qualified suppliers (including Tong Ren Tang Group) will be compared and determined by the Group; and the prevailing market rate of the Relevant Products will also be taken into consideration. Under the premise of equal quality, the procurement contract shall be granted to the supplier offering most favorable terms; and

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- if the Relevant Products are only available from specific suppliers due to content, special requirement or market resource limitations (the “**Special Products**”), reference shall be made to the price of Special Products offered by such suppliers and the prevailing market price of the Special Products. During the two years ended 31 December 2020 and 2021, and the nine months ended 30 September 2022, (i) members of Tong Ren Tang Group had always been able to supply the Group with the Special Products; and (ii) there had always been at least two comparable suppliers for each of the transactions involving Special Products. Furthermore, according to the Group’s procurement policies, under extreme circumstances where comparable supplier is not available, the procurement price shall be made with reference to the previous purchase price of the Special Products. During the two years ended 31 December 2020 and 2021, the nine months ended 30 September 2022 and up to the Latest Practicable Date, there had been no such extreme circumstance.

Payment of the Fees:

For the Relevant Products, payment arrangement will be negotiated by the parties and stated in the specific implementation agreement, but shall be the same as the arrangement with other independent third parties. Normally, payments will be made in cash or by acceptance bill between 90 to 180 days after the transfer of the ownership of the Relevant Products and the issuance of value-added tax invoices.

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.

Any such implementation agreement shall be subject to the terms and conditions of the renewed Master Procurement Agreement and the relevant annual caps for the continuing connected transaction contemplated thereunder.

Note: Relevant Products mainly include Chinese medicine raw materials, semi-finished products and finished products such as Pinellia ternata (半夏), red ginseng (紅參), rehmannia (地黃), Angong Niu Huang Wan Powder (安宮牛黃丸粉) and so on. Products sold to Tong Ren Tang Group under the Distribution Framework Agreement mainly include Chinese patent medicine products manufactured by the Group such as Liuwei Dihuang Pills (六味地黃丸), Jinkui Shenqi Pills (金匱腎氣丸), Ganmao Qingre Granules (感冒清熱顆粒), as well as other healthcare products and household chemical products developed and manufactured by the Group. Accordingly, there is no product overlap between the Relevant Products and the products under the renewed Distribution Framework Agreement.

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

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Annual Caps

Historical Transaction Amount

Historical transaction amount under the Master Procurement Agreement for the two years ended 31 December 2021 and for the nine months ended 30 September 2022 is set out as below:

	Year ended 31 December 2020	Year ended 31 December 2021	Nine months ended 30 September 2022
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Historical Transaction Amount	114.585	125.104	189.174

Historical Annual Caps and Utilization Rate

The historical annual caps for the transactions contemplated under the Master Procurement Agreement and the utilization rate of the historical annual caps for the three years ending 31 December 2022 are set out as below:

	Year ended 31 December 2020	Year ended 31 December 2021	Year ending 31 December 2022
Historical Annual Caps <i>(RMB million)</i>	270	320	370
Utilization Rate (%)	42.6%	39.1%	68.0% ^(Note)

Note: The utilization rate is calculated by dividing the historical transaction amount for the nine months ended 30 September 2022 by the pro-rated annual cap.

The Directors have been monitoring the transaction amount contemplated under the Master Procurement Agreement, and for the two years ended 31 December 2021, the annual cap for each year has not been exceeded. As at the Latest Practicable Date and for the year ending 31 December 2022, the annual caps for the transactions contemplated under the Master Procurement Agreement for the year ending 31 December 2022 has not been and is not expected to be exceeded.

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Proposed Annual Caps

The proposed annual caps for the transactions contemplated under the renewed Master Procurement Agreement for the three years ending 31 December 2025 are set below:

	Year ending 31 December 2023	Year ending 31 December 2024	Year ending 31 December 2025
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Proposed Annual Caps	500	550	600

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

- (i) The historical transaction amount for the two years ended 31 December 2021 and the nine months ended 30 September 2022, as well as the annual caps for the three years ending 31 December 2022: since the outbreak of the COVID-19 pandemic in 2020, the Group has faced various unfavorable factors such as obstruction of material transportation and difficulty in material procurement, the actual transaction amount under the Master Procurement Agreement for 2020 and 2021 was relatively low. However, during the first half of 2022, the COVID-19 pandemic in the PRC is getting normalized and all production units of the Group adjusted their production plans in a timely manner according to the development of the COVID-19 pandemic and made preparation of raw materials, supplementary materials and packaging materials in advance. The Group recorded procurement transactions with Tong Ren Tang Group of approximately RMB155 million during the first half of 2022. The procurement of the Relevant Products from Tong Ren Tang Group has been further increased to RMB189.174 million during the nine months ended 30 September 2022, which has far exceeded the actual transaction amount for 2021 and accounted for almost 70% of the pro-rated annual cap of 2022. With reference to the actual procurement amount in the nine months ended 30 September 2022, the estimated procurement amount between the Group and Tong Ren Tang Group in 2022 may reach almost RMB252 million, representing almost a double of actual procurement amount in 2021. Assuming that the Group will be operating in a normal business environment without production disruption caused by COVID-19 pandemic, the Company expects that the growing trend of transaction amount under the Master Procurement Agreement will continue in the future;
- (ii) Since 2020, despite the recurring COVID-19 pandemic and significant downward pressure on the economy, the Group conducted careful analysis on the market environment, took proactive actions, adapted to the new normal of development and grasped development opportunities, reached a 2.92% increase in sales revenue for 2020 as compared to 2019; and a 17.21% increase in sales

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revenue for 2021 as compared to 2020, and a 8.99% increase in sales revenue for 2022 first half as compared to 2021 first half, which illustrate that the overall operation of the Group continued to improve. Meanwhile, as of 31 December 2021, additional two and four series of products of the Group achieved a single-product sales amount of more than RMB100 million and RMB5 million, compared to that as of 31 December 2020, which illustrate that the series of products of the Group continued to expand. In the future, the Company will continue to focus on modern traditional Chinese medicine, seize the opportunity of the development of traditional Chinese medicine, continue to focus on the customer-centric approach, work under the guidance of the large-variety-strategy, continuously refine the products series of “treatment of chronic disease, treatment of foreseeable disease, non-medicine, pediatric drugs, cancer prevention and anti-cancer drugs, Tong Ren Tang special medicine” and boost the overall sales volume of related products. At the same time, the Company will promote its subsidiaries to rely on their own professional positioning, achieve in-depth development, and constantly expand the product fields and product types. Furthermore, the sales revenue of two of the Company’s subsidiaries, namely Tong Ren Tang Second Traditional Chinese Medicine Hospital and Nansanhuan Zhonglu Drugstore, amounted to approximately RMB215 million in 2021, representing a year-on-year increase of approximately 8.9%. Tong Ren Tang Medical Caring became the new shareholder of Tong Ren Tang Second Traditional Chinese Medicine Hospital and Nansanhuan Zhonglu Drugstore in June 2022. Through the introduction of Tong Ren Tang Medical Caring’s market-oriented operation and management experience, the operation of Tong Ren Tang Second Traditional Chinese Medicine Hospital and Nansanhuan Zhonglu Drugstore will be further enhanced. It is expected that in the future, Tong Ren Tang Second Traditional Chinese Medicine Hospital will further enhance its medical services, and Nansanhuan Zhonglu Drugstore will expand the varieties of the products to meet the consumers’ demand. Accordingly, the Company expect that the sales revenue of these two subsidiaries will be further increased in 2023 onward. In order to secure such steady increase in sales revenue, as well as the production and supply of products, the Company expects that the procurement volume of the Relevant Products by the Group is expected to increase in the next three years;

- (iii) with the initiation of Daxing Branch and Tong Ren Tang Technologies Tangshan in the second half of 2019, the total production value and production volume of the Group’s Chinese patent medicine for 2021 increased by 17.9% and 4.2% as compared to that of 2020, and is expected to increase steadily in the future. In view of the increment in the Group’s production volume in 2021 and the expecting growth in the sales revenue of the Group, the Company estimates that the procurement volume of the Relevant Products in the next three years will keep increasing in order to support the higher sales demand of the Group’s products. Meanwhile, it is expected that the expansion of the sales

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network of the “Tong Ren Tang” brand of Tong Ren Tang Group will further lead to an increase in the sales of the Group’s products, which in return will result in the increase in Group’s procurement volume;

- (iv) reference is made to the announcement of Tong Ren Tang Chinese Medicine dated 28 December 2021 regarding the renewal of the continuing connected transaction contemplated under the Angong Niu Huang Wan Powder (安宮牛黃丸粉) master purchase agreement. Pursuant to the Angong Niu Huang Wan Powder master purchase agreement, Tong Ren Tang Chinese Medicine may procure from Tong Ren Tang Ltd. Angong Niu Huang Wan Powder, being the raw material for the production of Angong Niu Huang Wan. The determined annual caps for the transactions contemplated under the Angong Niu Huang Wan Powder master purchase agreement for each of the years ending 31 December 2022, 2023 and 2024 are HK\$54 million, HK\$60 million and HK\$64 million, respectively. As the Angong Niu Huang Wan Powder fall within the scope of the Relevant Products under the Master Procurement Agreement, the Company expects that the transaction amount of the transactions contemplated under the renewed Master Procurement Agreement will also continue to increase;
- (v) 2025 will be the last year of the Group’s “14th Five-Year Plan”. To ensure the achievement of the Group’s “14th Five-Year Plan”, from 2023 to 2025, the Group will accelerate to build its grand health industrial cluster with traditional Chinese patent medicine as core business, household chemical products as growing business, gel products and disinfectant products as business with growth potential. In the future, the sales amount of the Group’s product series will continue to grow. The Company expects that in the next three years, the purchase amount of raw materials will continue to grow in order to make sure the supply of products. Accordingly, the transaction amount under the renewed Master Procurement Agreement will continue to increase;
- (vi) The Group sets strict standards on the choice of raw materials, while Tong Ren Tang Holdings has been engaged in the business of traditional Chinese medicine raw materials for a long period and such business has become well established in recent years. As compared with other suppliers, Tong Ren Tang Group has obvious advantages, and the traditional Chinese medicine raw materials supplied by Tong Ren Tang Group can better meet the medical standard of the Group, are more convenient to track origin and therefore can better meet the Group’s needs. 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. Accordingly, it is expected that the procurement amount of the Group from Tong Ren Tang Group will grow significantly;
- (vii) Based on the Weekly Price-Based Index of Chinese Medicines (中藥材周價格定基指數), due to the shortage of labour and higher logistic cost caused by the recurring outbreak of COVID-19 pandemic, the price of Chinese medicine raw materials increased significantly since August 2021. The average increase

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in the unit price of 16 types of core raw materials which applied on the Group's major products is around 10.3% during 2021 and the first half of 2022. Among those core raw materials, one of the major raw materials used in the Group's major products recorded a price increase of approximately 14.1% for the first half of 2022. The Company believe that such increasing trend will continue in the future and the annual caps of the Master Procurement Agreement shall increase accordingly; and

- (viii) A buffer of around 5% of the estimated procurement amount of the Relevant Products has been included for any unexpected increase 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 benefits of the renewal of the Master Procurement Agreement

Tong Ren Tang Holdings owns subsidiaries that specialize in Chinese medicinal raw materials related business, 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 production stability and product supply 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 and the Independent Board Committee 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 the Shareholders as a whole.

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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 relevant management policies 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 relevant management policies 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 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 in the previous 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., and then review such opinions and submit to the board of managers of the Company, which will finally approve and implement such opinions;

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- (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 (including discussing whether public bidding procedures are 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 party committee, board of managers and the Board (if necessary) 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 original annual caps;
- (f) 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 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.

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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 the 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.

Since Mr. Gu Hai Ou, the chairman of the Board, is also the vice general manager and member of the Standing Committee of the Party Committee of Tong Ren Tang Holdings, he is deemed to have material interests in the above connected transactions, and therefore has abstained from voting on the relevant resolutions of the Board. Save for disclosed above, to the best of the Directors' knowledge, information and belief after all reasonable enquiry, no Directors have material interests in the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement and as a result are required to abstain from voting on the relevant resolution at the Board meeting.

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. Beijing State-owned Assets Supervision and Administration Commission (北京市國有資產監督管理委員會) (“**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 (《北京市人民政府機構改革方案》) 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 (《北京市人民政府關於設立機構的通知》), 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.

6. PROPOSED APPOINTMENT OF NEW DIRECTOR

Reference is made to the announcement of the Company dated 24 August 2022 in relation to Mr. Ma’s application for resignation from the position as a non-executive Director due to work changes, and the Board’s proposal to appoint Ms. Feng a non-executive Director, subject to the Shareholders’ approval at the EGM. Biographical details of Ms. Feng are set out as below.

Ms. Feng Li, aged 47, bachelor degree, certified public accountant in China (non-practicing). Ms. Feng used to work as a senior audit manager at PricewaterhouseCoopers Zhongtian LLP., formerly served as the manager of the Internal Audit and Legal Department, the assistant to the general manager and the manager of the Economic Operation Department of the Company’s subsidiary, Tong Ren Tang Chinese Medicine, currently serves as the deputy general manager and the secretary to the board of directors of Tong Ren Tang Ltd., the controlling shareholder of the Company. Ms. Feng was appointed as an executive director of Tong Ren Tang Chinese Medicine on 12 August 2022.

Save as disclosed above and as at the Latest Practicable Date, Ms. Feng does not have any relationship with any Directors, senior management, substantial or controlling shareholder(s) of the Company, nor does she hold any other position with the Company or any of its subsidiaries, or any directorship in other listed companies in the last three years.

As at the Latest Practicable Date, Ms. Feng does not have any interest in shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

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It is proposed by the Board that Ms. Feng will not receive remuneration for her service as a non-executive Director, as determined by the Board with reference to the recommendation from the remuneration committee of the Company, having taken into account her duties and responsibilities with the Company and prevailing market conditions.

Upon due appointments as non-executive Director and her remuneration being approved by the Shareholders at the EGM, Ms. Feng will enter into a service contract with the Company for a term commencing from the date of appointment and until the end of this session of the Board, subject to re-election at the end of the term.

Save as disclosed above and as at the Latest Practicable Date, the Board is not aware of any other matters in relation to Ms. Feng's appointment as non-executive Director that need to be brought to the attention of the Shareholders nor any information that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Hong Kong Listing Rules.

7. 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, and to approve the proposed appointment of new director, is set out on pages 60 to 62 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, (i) 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 rights; and (ii) Tong Ren Tang Holdings directly hold 8,397,000 H Shares (representing approximately 0.66% of the issued share capital of the Company) with voting rights.

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 associates, 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

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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.

The register of members of the Company will be closed from Tuesday, 22 November 2022 to Thursday, 22 December 2022 (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 Monday, 21 November 2022.

8. 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 and the Independent Board Committee 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 and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

The Directors are of the view that the resolution in respect of the proposed appointment of Ms. Feng Li as non-executive Director is in line with the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommended the 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)

2 December 2022

To the Shareholders

Dear Sir or Madam,

**PROPOSED RENEWAL OF
CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated on 2 December 2022 (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.

Octal 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 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 Octal Capital, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 31 to 54 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 6 to 28 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 Adviser 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 letter of advice from Octal Capital Limited to the Independent Board Committee and Independent Shareholders prepared for the purpose of inclusion in this Circular.



801–805, 8/F, Nan Fung Tower,
88 Connaught Road Central,
Hong Kong

2 December 2022

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the renewed Distribution Framework Agreement (“**Renewed Distribution Framework Agreement**”) and the renewed Master Procurement Agreement (“**Renewed Master Procurement Agreement**”) (collectively, “**Framework Agreements**”), as well as the proposed annual caps for the respective continuing connected transactions contemplated thereunder, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) of the circular of the Company dated 2 December 2022 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter shall have the same meanings as those defined under the definitions section of the Circular.

The Company entered into the Renewed Distribution Framework Agreement and Renewed Master Procurement Agreement on 28 November 2022 for renewal of the terms of the Distribution Framework Agreement and Master Procurement Agreement for a term of three years from 1 January 2023 to 31 December 2025. The existing Distribution Framework Agreement and Master Procurement Agreement will expire on 31 December 2022.

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

As one or more of the applicable percentage ratios in respect of the estimated annual caps under the Framework Agreements exceed 5%, the Framework Agreements and the proposed annual caps 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.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

An 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, has been established to advise the Independent Shareholders in relation to the Framework Agreements and the proposed annual caps.

We, Octal Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Framework Agreements and the proposed annual caps. As at the Latest Practicable Date, we were not connected with the directors, chief executive and substantial shareholders of the Company or any of their respective subsidiaries or their respective associates and do 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. During the last two years, we have not been engaged by the Company as an independent financial adviser to the Company. Accordingly, we are qualified to act as the Independent Financial Adviser in respect of the Framework Agreements and the proposed annual caps pursuant to Rule 13.84 of the Hong Kong Listing Rules.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular as provided by the management of the Company were true at the time they were made and continue to be true as at the date of the Circular. We have also relied on our discussion with the management of the Company regarding the Framework Agreements and the proposed annual caps including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice, among other things, (i) the Framework Agreements; (ii) samples of reference documents referred by the Company in determining the proposed annual caps contemplated under the Framework Agreements; (iii) the annual report of the Company for the year ended 31 December 2021; (iv) the interim report of the Company for the six months ended 30 June 2022; (v) internal control policies governing the connected transactions of the Company; and (vi) other information as set out in the Circular. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed neither in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, Tong Ren Tang Group, and any of their respective subsidiaries and their respective associates, nor have we carried out any independent verification of the information supplied to us.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinions and recommendations in respect of the Framework Agreements and the proposed annual caps, we have taken into consideration the following principal factors and reasons:

1. Information of the Group and Tong Ren Tang Holdings

(a) *The Group*

The Group is principally engaged in the production and distribution of traditional Chinese medicine and primarily operates in the PRC and Hong Kong. As disclosed in the 2022 Interim Report (as defined below), the Group’s revenue are mainly derived from three segments, including (i) the manufacture and sale of Chinese medicine of the Company in the PRC which are mainly through the retail network of Tong Ren Tang Group and other distributors (the “**Company Segment**”); (ii) manufacturing, retail and wholesale of Chinese medicine products and healthcare products, and provision of Chinese medical consultation and treatments outside the PRC (including Hong Kong and the Macau Special Administrative Region of the PRC) and wholesale of healthcare products in the PRC by Tong Ren Tang Chinese Medicine, (which is also listed on the Hong Kong Stock Exchange) and its subsidiaries (the “**Tong Ren Tang Chinese Medicine Segment**”). Based on the annual report of Tong Ren Tang Chinese Medicine for FY2021, Tong Ren Tang Chinese Medicine has 23 retail outlets in Hong Kong and 46 retail outlets outside the PRC; and (iii) processing and purchasing of Chinese medicinal raw materials, sales of medicinal products, medical services and advertising, etc. (the “**Other Segment**”).

The table below summarizes the audited financial information of the Group for the two years ended 31 December 2020 and 2021 (“**FY2020**” and “**FY2021**”, respectively) and the unaudited financial information of the Group for the six months ended 30 June 2021 and 2022 (“**HY2021**” and “**HY2022**”, respectively), as extracted from the annual report of the Company for FY2021 (the “**2021 Annual Report**”) and the interim report of the Company for HY2022 (the “**2022 Interim Report**”) respectively:

RMB’000	FY2020 (audited)	FY2021 (audited)	HY2021 (unaudited)	HY2022 (unaudited)
Company Segment	2,918,188	3,257,670	1,821,468	1,998,254
Tong Ren Tang Chinese Medicine Segment	1,162,660	1,291,177	587,220	519,747
Other segment	526,521	851,640	357,430	496,687
Revenue	4,607,369	5,400,487	2,766,118	3,014,688
Gross profit	2,067,710	2,291,295	1,248,724	1,293,166
Gross profit margin	44.9%	42.4%	45.1%	42.9%
Profit attributable to shareholders of the Company	467,553	507,249	315,461	318,322

Source: 2021 Annual Report and 2022 Interim Report

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

FY2021 compared to FY2020

The revenue of the Group increased from approximately RMB4,607 million for FY2020 to approximately RMB5,400 million for FY2021, representing an increase of approximately RMB793 million or 17.2%. The increase in revenue was mainly due to the sales revenue of the Company Segment and Tong Ren Tang Chinese Medicine Segment which recorded an increase of approximately 11.6% and 11.1% from FY2020 to FY2021, respectively. During FY2020 and FY2021, the revenue derived from the Company Segment accounted for approximately 63.3% and 60.3% of the total revenue, respectively.

During FY2021, 54 series of products of the Group achieved a single-product sales amount of more than RMB5 million, and 11 of which achieved a single-product sales amount of more than RMB100 million, compared to 50 series of products and 9 series of products in FY2020, respectively. The Group based on the consumer characteristics of the main sales regions of respective products to select high-quality stores to carry out diversified market activities, and also promoted the development of local terminal market to enhance terminal sales capabilities.

The gross profit of the Group increased from approximately RMB2,068 million for FY2020 to approximately RMB2,291 million for FY2021, representing an increase of approximately RMB224 million or 10.8%. The profit attributable to shareholders of the Company increased from approximately RMB468 million for FY2020 to approximately RMB507 million for FY2021, representing an increase of approximately RMB40 million or 8.5%. Such increment in profitability was mainly due to the significant improvement in revenue.

HY2022 compared to HY2021

The revenue of the Group increased from approximately RMB2,766 million for HY2021 to approximately RMB3,015 million for HY2022, representing an increase of approximately RMB249 million or 9.0%. Revenue from the Company Segment accounted for almost 66.3% of the total revenue for HY2022. The increase in revenue was mainly due to the development of the large-variety-strategy and the reasonable production arrangement according to sales need. The gross profit of the Group increased from approximately RMB1,249 million for HY2021 to approximately RMB1,293 million for HY2022, representing an increase of approximately RMB44 million or 3.6%. The profit attributable to shareholders of the Company maintained stable at approximately RMB315 million for HY2021 and approximately RMB318 million for HY2022.

As disclosed in the 2021 Annual Report, in addition to the traditional over-the-counter medicine channels, the Group continues to focus on the e-commerce channel to achieve comprehensive coverage. As disclosed in the 2022 Interim Report, the Group will continue to strengthen the development of distribution channels, connect with strategic partners and national top 100 chains to carry out all-rounded cooperation to increase the sales revenue.

(b) Tong Ren Tang Holdings

Tong Ren Tang Holdings is engaged in (i) processing and manufacture of Chinese patent medicine and Chinese medicinal decoction pieces; (ii) sales of Chinese medicinal, Chinese patent medicine, Chinese medicinal decoction pieces and medical food, and (iii) warehousing and transportation, etc. Tong Ren Tang Ltd., which is a subsidiary of Tong Ren Tang Holdings, has a sales network of approximately 933 retail outlets in the PRC as at 30 June 2022. As stated in the Letter from the Board, Tong Ren Tang Holdings owns subsidiaries that specialises in the Chinese medicinal raw materials and supplies various Chinese medicinal raw materials with good quality. Meanwhile, some of its subsidiaries in China 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.

2. Industry Overview

Health issue in China has become an explicit national political priority with the publication of the Healthy China 2030 Planning Outline by the National Health Commission of the PRC (中華人民共和國國家衛生健康委員會). The Healthy China 2030 Planning Outline first released in 2016 and intensely promoted in 2019 by the Chinese government, such plan unveils an ambitious blueprint to transform China's healthcare system, so as to raise the overall health level of the Chinese people. The said report anticipates that the Healthy China 2030 Planning Outline will increase the research and development funding into biomedical research topics, which may lead to revitalization of traditional Chinese medicines. The Healthy China 2030 Planning Outline also highlights the importance and strength of traditional Chinese medicine with an objective to accelerate the adoption of traditional Chinese medicine in medical treatment and rehabilitation process.

According to a circular released on 20 May 2022 by the General Office of the State Council, a plan is issued to improve policies on national health, and push forward the initiatives of Healthy China 2030 Planning Outline to meet people's growing need for well-being during the "14th Five-Year Plan" period (2021–2025). The circular encouraged to accelerate the setting up of institutions and systems that put people's health first while highlighting disease prevention with focus on major diseases, risk factors and vulnerable groups, while the unique advantage of traditional Chinese medicine should be used in coordination with Western medicine. The said circular emphasised that the Chinese government will procure and strengthen the research and innovation of traditional Chinese medicines.

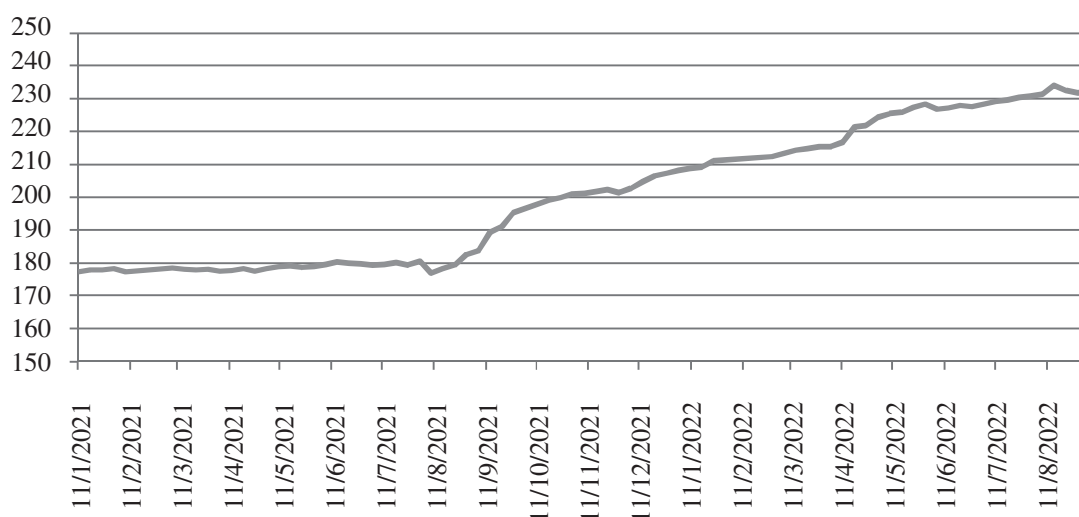
According to the National Bureau of Statistics of China, the total health expenditure in 2020 of approximately RMB7.2 trillion (accounting for approximately 7.1% of the total GDP of China) and recorded an increase of 9.6% from approximately RMB6.6 trillion in 2019. In particular, looking into the retail Chinese herbal market in the PRC, the turnover of the retail Chinese herbal market in 2020 was approximately RMB8.6 billion, representing a compound annual growth rate (the "CAGR") of 63.2% as compared to approximately RMB2.0 billion in 2017. One of the main factors for the significant increase in spending on the Chinese herbal is due to the issue of aging population in the PRC. The age population over 65 years old has been

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increased from approximately 178 million in 2019 to approximately 201 million in 2021, representing a CAGR of 6.3% which outpaced the increase in the overall population of the PRC. There is growing attention to the prevention and control of chronic diseases and health promotion of the elderly. The advanced development of the primary health care and the traditional Chinese medicine in China will be playing a valuable role in the prevention and management of chronic diseases. Meanwhile, after the outbreak of COVID-19, the traditional Chinese medicine has become one of the main treatments against the disease.

The following graph showed the price-based index of Chinese medicine in the PRC from January 2021 to August 2022.

Weekly Price-Based Index of Chinese Medicines in the PRC



Source: Traditional Chinese Medicine Industry Weekly

From the above graph, we observed that the Weekly Price-Based Index of Chinese Medicines (中藥材周價格定基指數) in the PRC issued by the Traditional Chinese Medicine Industry Weekly (中藥行業週報), was demonstrating an increasing trend of the index from approximately 180 in August 2021 to approximately 234 in August 2022. The outbreak of COVID-19 has disrupted the supplies of raw materials, contributing to temporary shortages of raw materials and upward pricing pressure.

3. Reasons of and benefits for the Framework Agreements

(a) Renewed Distribution Framework Agreement

To facilitate the business development and operation of the Group, the Company entered into the Distribution Framework Agreement with Tong Ren Tang Holdings since April 2008, and the Distribution Framework Agreement has been renewed four times by the parties for a term of three years for each renewal. Pursuant to the Renewed Distribution Framework Agreement, the Group may sell its products to Tong Ren Tang Group, and Tong Ren Tang Group may procure products from the Group and then distribute the same to retailers or end-users as non-exclusive distributor of the Group. The

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distribution relationship between the Group and Tong Ren Tong Group have been established for almost 14 years. Tong Ren Tong Group has been the largest customer of the Group since 2015 and accounted for approximately 27.5% and 23.8% of the Group's total revenue in FY2020 and FY2021, respectively.

As stated in the Letter from the Board, the Directors consider that the utilization of the domestic sales network of Tong Ren Tang Group to distribute the products of the Group together with the advantage of the "Tong Ren Tang" renowned brand can maintain the market share of the Group in the PRC, hence the distribution relationship between the Group and Tong Ren Tang Group is crucial to the business sustainability of the Group.

Pursuant to the Renewed Distribution Framework Agreement, the Group could utilize the distribution channel of Tong Ren Tang Group on a voluntary basis and as a non-exclusive distributor. In view of the flexibility of choosing distributors by the Group, the members of the Group have its internal selection mechanism to identify suitable distributors based on the terms and conditions offered, hence the Group are free in choosing the distributors with the most favourable terms to the Group.

Having considered that (i) the Group has established and maintained long-term distribution relationship with Tong Ren Tang Group since 2008; (ii) the extensive sales network of Tong Ren Tang Group will enable the Group to maintain its market share and strengthen its presence in the market with the expansion of e-commerce distribution channel; and (iii) the Group has no sales commitments with Tong Ren Tang Group and has flexibility in choosing suitable distributors with favourable terms to the Group, we considered that the Company has commercial rationale to enter into the Renewed Distribution Framework Agreement.

(b) The Renewed Master Procurement Agreement

The Company entered into the Master Procurement Agreement with Tong Ren Tang Holdings on 28 February 2011, which was renewed by the parties three times for a term of three years for each renewal, 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.

As disclosed in 2021 Annual Report, Tong Ren Tang Group has been the largest supplier of the Group since 2017 and accounted for approximately 7.9% and 6.5% of the Group's total amount of purchases in FY2020 and FY2021, respectively. Through the Renewed Master Procurement Agreement, the Group may purchase raw materials, semi-finished products and finished products for the Group's production, sale and distribution from Tong Ren Tang Group. Since Tong Ren Tang Group owns relevant manufacturing bases of raw materials in the PRC and could guarantee the quality and supply of raw materials to be procured by the Group. In addition, certain subsidiaries of Tong Ren Tang Holdings are engaged in the production and sales of patent Chinese medicines. Therefore, procuring such products from Tong Ren Tang Group for further production, sale and distribution is crucial to the operation of Group.

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Pursuant to the Renewed Master Procurement Agreement, Tong Ren Tang Group will be a non-exclusive supplier of the Group and the Group will be able to continue the procurement of Relevant Products from Tong Ren Tang Group. As advised by the management of the Company, the Group has all along maintained a diversified list of qualified suppliers and did not place heavy reliance on Tong Ren Tang Group, which only accounted for around 7.9% and 6.5% of the total amount of purchases by the Group for FY2020 and FY2021, respectively. The Group has the flexibility to source raw materials or products from other independent suppliers at any time as long as the terms and price are favourable to the Group and the quality of raw materials or products can fulfil the Group's requirements.

Having considered that (i) the Group has established and maintained long-term supplier relationship with Tong Ren Tang Group since 2011; (ii) Tong Ren Tang Group, which has been one of the qualified suppliers of the Group over a decade, provides a stable and quality supply of Relevant Products to support the principal business of the Group; (iii) Tong Ren Tang Group is able to guarantee the quality and supply of raw materials for the Group's production; and (iv) the non-exclusive nature of the Renewed Master Procurement Agreement provides no procurement obligation to the Group but offers an alternative source of Relevant Products to support the usual and ordinary business of the Group, we considered that the Company has commercial rationale to enter into the Renewed Master Procurement Agreement.

4. Principal terms of the Framework Agreements

The principal terms of the Framework Agreements are summarized in the following table.

	Renewed Distribution Framework Agreement	Renewed Master Procurement Agreement
Date	28 November 2022	
Parties	(i) the Company (ii) Tong Ren Tang Holdings	
Term	Three years from 1 January 2023 to 31 December 2025 (subject to the approval by the Independent Shareholders)	

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**Renewed Distribution
Framework Agreement**

**Renewed Master Procurement
Agreement**

Principal terms and conditions:

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.

The Company agreed that the Group may, from time to time, procure the Relevant Products from members of Tong Ren Tang Group for the purpose of its production, sale and distribution.

Tong Ren Tang Holdings agreed that Tong Ren Tang Group as non-exclusive supplier of the Group, members of Tong Ren Tang Group may, from time to time, supply the Relevant Products to the Group.

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Renewed Distribution Framework Agreement

Pricing policies:

The price of the products to be sold by the Group to Tong Ren Tang Group shall not be lower than the price of the products sold 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 45%).

Renewed Master Procurement Agreement

The Relevant Products supplied to the Group must satisfy the Pharmacopoeia of the People's Republic of China (《中華人民共和國藥典》) standard and the internal quality standard of the Company. The Group has maintained a list of qualified suppliers (including Tong Ren Tang Group) which are able to provide the Relevant Products that satisfy the abovementioned standards. For each specific transaction, the Company shall negotiate the detailed terms and conditions of the supply of the Relevant Products with different qualified suppliers (including Tong Ren Tang Group, and at least two independent qualified suppliers in the same or surrounding areas) on a fair competition basis through bidding process, competitive negotiation, business inquiry and/or similar procedures. In the abovementioned price determination procedure, the quality of the Relevant Products and the price provided by different qualified suppliers (including Tong Ren Tang Group) will be compared and determined by the Group; and the prevailing market rate of the Relevant Products will also be taken into consideration. Under the premise of equal quality, the procurement contract shall be granted to the supplier offering most favorable terms; and

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Renewed Distribution Framework Agreement

Renewed Master Procurement Agreement

If the Relevant Products are only available from specific suppliers due to content, special requirement or market resource limitations (the “**Special Products**”), reference shall be made to the price of the Special Products and the prevailing market price of the Special Products.

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.

Payment arrangement will be negotiated by the parties and stated in the specific 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 credit period is usually between 30 days and 180 days.

The payment shall be made in cash or by acceptance bill between 90 to 180 days after the transfer of the ownership of the Relevant Products by the Company and the issuance of value-added tax invoices.

The terms of the Renewed Distribution Framework Agreement and the Renewed Master Procurement Agreement have no material difference from those of the existing Distribution Framework Agreement and Master Procurement Agreement.

For the details of the Framework Agreements, please refer to the Letter of the Board.

Pursuant to the Framework Agreements, 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 that 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.

The above pricing policies in the Framework Agreements 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.

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We have obtained lists of implementation agreements (which are referring to the sales contracts and procurement contracts) entered into between the Group and Tong Ren Tong Group during FY2020, FY2021 and the nine months ended 30 September 2022 (“9M2022”). During FY2020, FY2021 and 9M2022, as provided by the Group, the Group and Tong Ren Tang Group entered into around 2,000 sets of sales contracts (in which the individual contract amount ranged from RMB100 to RMB1,000,000) and around 30 sets of procurement contracts for each year. Since there is a large population of signed sales contracts in each year, the sample selection was focused on the top 10 best-selling products with individual contract amount over RMB500,000. Regarding the procurement contracts of each year, we selected the procurement contracts with procurement amount over RMB500,000 in relation to the Group’s major raw materials to compare with similar transactions conducted with independent third parties. During our review process, in aggregate, nine sets of sales contracts and nine sets of procurement contracts were selected from the lists of FY2020, FY2021 and 9M2022.

Among the numerous amounts of transaction documents, including sales contracts and procurement contracts and the relevant invoices obtained, we have reviewed (i) unit price; (ii) sales/purchase amount; (iii) payment terms; and (iv) delivery method. On the basis that (i) the Group has adopted internal control measures to govern the continuing connected transactions contemplated under the Framework Agreements through the previous years; and (ii) we also reviewed the internal control findings, the confirmation from the independent non-executive directors and the Auditor’s letters for FY2020 and FY2021 in respect of continuing connected transactions of the Group, without aware of material abnormality in relation to the internal control measures on the Group’s continuing connected transactions, we believed that the selection of the said copies of sales contracts and procurement contracts are sufficient for us to understand how the transactions under the existing Framework Agreements are conducted. We noted that the terms were given to/offered by Tong Ren Tang Group are no less favourable than those given to/offered by the independent third parties. Therefore, we concurred with the Company that the pricing terms and payment terms in relation to the Group’s products supplied to Tong Ren Tang Group or the Relevant Products procured from Tong Ren Tang Group were no less favourable than those agreed with independent customers or suppliers given that the internal control measures of the Group are effective.

Taking into account of the above, in particular, the Framework Agreements does not impose any contractual obligations to the Group to conduct sales or procurement transactions with Tong Ren Tang Group, we are of the view that the terms of the Framework Agreements are on normal commercial terms.

5. Proposed annual caps in relation to the Renewed Distribution Framework Agreement

	Annual Caps			Proposed Annual Caps		
	Year ended/ending 31 December			Year ending 31 December		
	2020	2021	2022	2023	2024	2025
in RMB million	1,450	1,670	1,850	2,680	3,000	3,450

The major components of the proposed annual caps for the Renewed Distribution Framework Agreement primarily include (i) around 70% of the proposed annual caps refers to the sales of products produced by the Group (excluding Tong Ren Tang Chinese Medicine) through the distribution channel of Tong Ren Tang Group; (ii) around 10% of the proposed

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annual caps refers to the sales of Chinese medicine, skincare and healthcare products produced by the Group (excluding Tong Ren Tang Chinese Medicine) through online platform under the brand of “Tong Ren Tang”; (iii) around 15 % of the proposed annual caps refers to the sales of products produced by Tong Ren Tang Chinese Medicine; and (iv) the remaining portion includes a buffer of 5% for price inflation of the Group’s products. Shareholders should note that such projected sales transactions are assumed solely for determining the proposed annual caps for the Renewed Distribution Framework and shall not be regarded as any indication directly or indirectly as to the respective revenue, profitability or trading prospects of the Group.

In assessing whether the proposed annual caps for the Renewed Distribution Framework Agreement are fair and reasonable, we discussed with the management of the Company about the bases and assumptions underlying the proposed annual caps which are determined with reference to the following factors.

(1) Actual transaction amounts between the Group and Tong Ren Tang Group

The table below sets forth the actual transaction amount and utilization rates for FY2020, FY2021 and 9M2022:

<i>RMB million</i>	FY2020	FY2021	9M2022
Annual Cap	1,450	1,670	1,388
Historical Transaction	1,262	1,297	1,266
Utilization Rate	87.0%	77.7%	91.2% ^(Note)

Note: the utilization rate is calculated by dividing the historical transaction amount for 9M2022 by the pro-rated annual cap.

We noted that the relevant utilization rates of the annual caps were approximately 87.0%, 77.7% and 91.2% for FY2020, FY2021 and 9M2022, respectively. The connected sales transactions for 9M2022 have been RMB1,266 million, which almost closed to the actual sales transaction amount of Tong Ren Tang Group and the Group under the Distribution Framework Agreement in FY2021. Based on our discussion with the management of the Company that the anticipated annual sales transactions with Tong Ren Tang Group will be very closed to the annual cap of for the year ending 31 December 2022 (“**FY2022**”). The revenue of the Company Segment recorded an increment of approximately 11.6% from FY2020 to FY2021. During HY2022, the revenue of the Company Segment was even higher than that for the same period of 2021 by approximately 9.7%. The improvement in revenue was mainly attributable to the Group’s efforts in boosting the distributors’ confidence and made the Group’s marketing activities more active and effective. One of the major distribution channels of the Group is the retail network of Tong Ren Tang Group and the Group’s products have been sold to its end-users through Tong Ren Tang Group for over a decade. We noted that the amount of sales transactions between the Group and Tong Ren Tang Group increased in line with the revenue of the Company Segment during FY2021 and HY2022. The management of the Company explained that the Group launched more varieties of products under the “One Product and Three Specifications” strategy, and continued to enrich its promotional means to boost sales performance of its popular products in the PRC market, in particular to

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attract more end-users to purchase for the Group's products through the retail outlets of Tong Ren Tang Group. As stated in the 2022 Interim Report, the Group will continue to strengthen the development of terminal channels, connect with strategic partners and national top 100 chains on a product-by-product basis with the objectives to continuously increase the market coverage and shelf rate of products, and drive terminal sales. The management of the Company expects that the growth momentum of the Group will be maintained due to the increasing health concern of consumers in the PRC coupled with the impact of the COVID-19 pandemic. Therefore, based on the high utilization rate of the annual caps for FY2020, FY2021 and 9M2022, there is a genuine need to increase the annual cap with Tong Ren Tang Group for the year ending 31 December 2023 (“FY2023”) to meet the expected sales demand from Tong Ren Tang Group.

(2) Increasing demand from the Group's products from the retail outlets of Tong Ren Tang Group

During FY2021, 54 series of products (FY2020: 50 series of products) of the Group achieved a single-product sales amount of more than RMB5 million. The series of products, that achieved sales amount of more than RMB100 million, increased from 9 in FY2020 to 11 in FY2021.

As at 30 June 2022, Tong Ren Tang Ltd. has an extensive network of approximately 933 retail outlets in the PRC, which have been increased from 880 retail outlets in FY2020. Such wide coverage of retail outlets of Tong Ren Tang Ltd. laid a strong foundation to continue driving the sales of the Group's products. We understand from the management of the Company that the Group has been utilized the retail network of Tong Ren Tang Group for retail sales of the Group's own products for over a decade, and the retail outlets of Tong Ren Tang Holdings under the century old brand of “Tong Ren Tang” has established a large and stable consumer population. Based on our discussion in the “Industry Overview” section, the aging population in the China and the stronger awareness on health issues, the public expenditure on the health sector and the traditional Chinese medicine have been on the rise. Therefore, we concur with the management of the Company that utilization of the sales network of Tong Ren Tang Group together with its century old brand will further boost the sales revenue of the Group's products given the growth of traditional Chinese medicine market is promising, leading to a higher transaction amount with Tong Ren Tang Group.

As disclosed in the annual reports of Tong Ren Tang Ltd. of FY2020 and FY2021, the revenue of retail outlets increased by approximately 12.6% to RMB8,325 million in FY2021. Having witnessed (i) the expansion of retail outlets of Tong Ren Tang Ltd. in the past three years; (ii) the growing revenue of retail outlets of Tong Ren Tang Ltd.; and (iii) the increasing health concern of the end consumers, the management of the Company expects that the products demand from Tong Ren Tang Group will be further increased in the coming three years.

As mentioned above, the major component of the proposed annual caps are the sales of Chinese medicine produced by the Group (excluding Tong Ren Tang Chinese Medicine) through the distribution channel of Tong Ren Tang Group and the estimated

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sales amount are mainly derived from the estimated sales transactions with Tong Ren Tang Group (excluding those between Tong Ren Tang Chinese Medicine and Tong Ren Tang Group) of FY2022 amounted to approximately RMB1,636 million plus a 15% annual growth rate in the coming three years. The growth rate is made reference to the CAGR of sales revenue of the Group's Top 5 series of products from FY2019 to FY2021 of approximately 10.35%. As advised by the management of the Company, the sales performance of the Group in FY2020 and FY2021 has been underperformed since the sales of the Group's Chinese medicines has been affected by the COVID-19 pandemic. In view of the normalization of COVID-19 pandemic in the near future, the management of the Company expects that the sales to Tong Ren Tang Group will be outperformed as compared to the previous growth trend and therefore a growth rate of 15% has been adopted in estimating the annual sales transactions of Chinese medicine between the Group and Tong Ren Tang for the three years ending 31 December 2025. We have checked to the statistics published by the National Bureau of Statistics of China. The consumption of pharmaceutical and health products per capita increased from approximately RMB1,451 in 2017 to approximately RMB2,115 in 2021 with CAGR of approximately 10% and the recent increment from 2020 to 2021 is approximately 15%.

On the other hand, as disclosed in the Company's announcement dated 25 May 2021, the Company established a joint venture company in May 2021 to engage in the business of e-commerce. The objective of this joint venture is to integrate the internal and external resources of Tong Ren Tang Group (including the Group) to establish an integrated platform for Tong Ren Tang pharmaceutical e-commerce business, thereby expanding the brand influence and boosting online sales of products. Subject to the commencement of the pharmaceutical e-commerce platform of Tong Ren Tang Group in FY2023, the proposed annual caps have included RMB310 million, RMB310 million and RMB330 million in relation to the forecast sales transactions between the Group and Tong Ren Tang Group to support the operation of the upcoming e-commerce platform in the three years ending 31 December 2025, respectively. The management of the Company made reference to the sales value of the Group's Chinese medicine products on third party e-commerce platforms with approximately RMB200 million a year to forecast the transaction amount between the Group and Tong Ren Tang Group in relation to the e-commerce platform to be around RMB310 million during the two years ending 31 December 2024. Assuming the operation of the e-commerce platform becomes mature and obtains higher online market share in the year ending 31 December 2025, the estimated sales transactions will grow to the level of RMB330 million.

(3) The growing traditional Chinese medicine industry in the PRC

As stated in the section of "Industry Overview", the Chinese government remained supportive to the traditional Chinese medicine industry and strengthen the research and innovation of traditional Chinese medicines, which has brought about new opportunities for the industry players. Moreover, in the PRC, the turnover of the retail Chinese herbal market in 2020 was approximately RMB8.6 billion, representing a CAGR of 63.2% as compared to approximately RMB2.0 billion in 2017. One of the main factors for the significant increase in spending on Chinese herbal is due to the issue of aging population in the PRC. The aging population in the PRC has been demonstrated a significant

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increment from 2019 to 2021. The age population of over 65 years old reached approximately 202 million, representing 14.2% of the whole population of the PRC in 2021. These aging population has been placing higher concern on health issues.

In view of the promotion of Health China 2030 Planning Outline, the Group continues to focus on its major product series supplemented by daily cosmetics, food supplements and disinfection and pandemic prevention products due to the growing awareness of health concern. The Group is continuing to adopt large-variety-strategy as the major focus of the business and distribute the products through multi-channels with an objective to expand the population of end-consumers. In 2021, the Group have 11 series of products which achieved sales amount of more than RMB100 million. The Group will continue to promote these 11 best-selling series of products and further enhance product penetration in the PRC market through the sales network of Tong Ren Tang Group, including retail outlets and online platforms. The management of the Company advised that, in view of the popularity of online shopping and e-commerce, the Group's products are also sold through e-commerce channels under the brand of "Tong Ren Tang". As disclosed in the 2021 Annual Report, the Group continues to strengthen its online sales performance through active participation in e-commerce festival promotion organized by Tmall.com and JD.com and advertising events (such as live-streaming e-commerce, expert explanation) held on social media platforms with personalized advertising content which are focused on a targeted group of consumers. Having considered the above factors, it is reasonable to expect that the sales performance of the Group will maintain its current growth momentum and in turn the product demand from Tong Ren Tang Group will be further increased to meet the expectation of end-consumers.

(4) Sales transactions between Tong Ren Tang Chinese Medicine and Tong Ren Tang Group

The renewed PRC distribution framework agreement (中國分銷協議) between Tong Ren Tang Chinese Medicine and Tong Ren Tang Holdings mentioned in the announcement of Tong Ren Tang Chinese Medicine dated 2 December 2019 will expire by the end of 2022, and Tong Ren Tang Chinese Medicine is in the process of renewing such agreement. As Tong Ren Tang Chinese Medicine is a subsidiary of the Company, the sales transactions between Tong Ren Tang Chinese Medicine and Tong Ren Tang Holdings under the PRC distribution framework agreement constitute as continuing connected transactions under the Renewed Distribution Framework Agreement. The management of the Company explained that Tong Ren Tang Group mainly purchases the Chinese medicine and/or healthcare products containing ganoderma lucidum or ganoderma lucidum spore as raw materials (including Sporoderm-broken Ganoderma Lucidum Spores Powder Capsules ("GLSPC")), which are researched, developed and manufactured by Tong Ren Tang Chinese Medicine in Hong Kong, from Tong Ren Tang Chinese Medicine with sales of approximately HKD338 million, HKD92 million and HKD40 million for FY2020, FY2021 and HY02022, respectively under the PRC distribution framework agreement between Tong Ren Tang Chinese Medicine and Tong Ren Tang Holdings. The sales transactions between Tong Ren Tang Chinese Medicine and Tong Ren Tang Group was low for FY2021 and 9M2022 because of the adjustment of Tong Ren Tang Chinese Medicine's sales strategy after considering that there were long overdue receivables from

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certain subsidiaries, jointly-controlled entities and associates of Tong Ren Tang Group. Therefore, Tong Ren Tang Chinese Medicine limited its sales to Tong Ren Tang Group. Having considered that the long overdue receivables due from Tong Ren Tang Group had been fully recovered as at 31 December 2021, Tong Ren Tang Chinese Medicine has resumed its normal trading with Tong Ren Tang Group. As disclosed in the interim report of 2022 of Tong Ren Tang Chinese Medicine, due to COVID-19 pandemic, the production base of Tong Ren Tang Chinese Medicine in Hong Kong suspended production from February 2022 to the late April 2022. Their core products in the PRC, Hong Kong and Macau were in short supply, and production and operation suffered a serious setback. The management of the Company anticipated that once the trading transactions between Tong Ren Tang Chinese Medicine and Tong Ren Tang Group resume to normal level, Tong Ren Tang Chinese Medicine will resume its supply of GLSPC to the retail outlets of Tong Ren Tang Group and strengthen its product promotion in the PRC market with an objective to catch up the product sales and gain market share of GLSPC-related products. In the meantime, Tong Ren Tang Chinese Medicine will launch new series of product in the PRC market during the three years ending 31 December 2025. The projected sales transactions between Tong Ren Tang Chinese Medicine and Tong Ren Tang Group for FY2023 is based on (i) the estimated sales amount in FY2022 multiplied by an expected growth rate of 15%; and (ii) the estimated sales of a new series of product to be launched in the PRC.

Tong Ren Tang Chinese Medicine also expanded the scope of products to be sold to Tong Ren Tang Group. As stated in the announcement of Tong Ren Tang Chinese Medicine dated 22 September 2022, Tong Ren Tang Chinese Medicine and Tong Ren Tang Ltd. entered into sales framework agreement in relation to the sales of Chinese medicines, healthcare products, Chinese herbs and raw materials for production of Chinese medicines and healthcare products (the “**Chinese Medicine Products**”) for the period from 22 September 2022 to 31 December 2022 to Tong Ren Tang Ltd., and the relevant cap is HK\$74 million. As advised by the management of the Company, the sales of Chinese Medicine Products from Tong Ren Tang Chinese Medicine to Tong Ren Tang Ltd. will continue in the coming three years. The management of the Company projected that (i) the full year sales of Chinese Medicine Products in FY2023 are based on the estimated sales transactions in the 4th quarter of 2022, which is determined with reference to the sales of the Chinese Medicine Products to Tong Ren Tang Group in September 2022; and (ii) the full year sales for 2024 and 2025 are based on the respective estimated sales of FY2023 multiplied by a growth rate of 15%.

Having considered (i) the sales transactions under the PRC distribution framework agreement is expected to be gradually resumed to the sales level of FY2020; (ii) the expansion of the scope of products by including the Chinese Medicine Products will further enhance the revenue of Tong Ren Tang Chinese Medicine; and (iii) Tong Ren Tang Chinese Medicine will launch new series of product in the PRC market during the three years ending 31 December 2025, we concur with the Company that the estimated sales transactions between Tong Ren Tang Chinese Medicine and Tong Ren Tong Group for the three years ending 31 December 2025 are justifiable.

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(5) Expected Inflation in the PRC

We have obtained the consumer price index which is used as a measure of inflation in National Bureau of Statistics and noted that the consumer price index increased by 2.8% in September 2022 as compared to September 2021, thus we concur with the Company's view that it is justifiable to include additional buffer of 5% in the estimation of annual caps to cope with the pricing pressure in relation to the changing market conditions.

Having considered the above, in particular that (i) the high utilization rate of annual caps in the past three years; (ii) the Group's long-term distribution relationship with Tong Ren Tang Group through Tong Ren Tong Group's sales network; (iii) Tong Ren Tong Group's steady and continuous growth in retail revenue; (iv) the increasing health concern of consumers, especially after the COVID-19 pandemic; (v) the anticipated annual caps between Tong Ren Tang Chinese Medicine and Tong Ren Tong Group under the PRC distribution framework agreement and sales framework agreement; and (vi) the conducive government policies of traditional Chinese medicine industry in the PRC market, we are of the view that the annual caps for the three years ending 31 December 2025 under the Renewed Distribution Framework Agreement are justifiable.

6. Proposed annual caps in relation to the Renewed Master Procurement Framework Agreement

<i>in RMB million</i>	Annual Caps			Proposed Annual Caps		
	Year ended/ending 31 December			Year ending 31 December		
	2020	2021	2022	2023	2024	2025
Annual Caps	270	320	370	500	550	600

The major components of the proposed annual caps of for the Renewed Master Procurement Agreement primarily include (i) around 84% of them refers to the purchase of the Relevant Products from Tong Ren Tang Group to support the Group's production; (ii) around 11 % of the proposed annual caps refers to the purchase of Angong Niu Huang Wan Powder from Tong Ren Tong Group by Tong Ren Tang Chinese Medicine; and (iii) the remaining annual caps refer to a buffer of around 5% for price inflation.

In assessing whether the proposed annual caps for the Renewed Master Procurement Agreement are fair and reasonable, we discussed with the management of the Company about the bases and assumptions underlying the respective annual caps which are determined with reference to the following factors.

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(1) Actual transaction amounts between the Group and Tong Ren Tang Group

The table below sets forth the annual caps and utilization rates for FY2020, FY2021 and 9M2022:

<i>RMB million</i>	FY2020	FY2021	9M2022
Annual Cap	270	320	278
Historical Transaction	115	125	189
Utilization Rate	42.6%	39.1%	68.0% ^(Note)

Note: the utilization rate is calculated by dividing the historical transaction amount for 9M2022 by the pro-rated annual cap for the same period.

We noted that the actual procurement amount of Tong Ren Tang Group were only RMB115 million and RMB125 million, representing 42.6% and 39.1% of the annual caps for FY2020 and FY2021 respectively. We understand from the management of the Company that the COVID-19 pandemic disrupted production schedule and procurement arrangement of the Group. Therefore, the procurement amount of the Relevant Products by the Group from Tong Ren Tang Group was much lower than the approved annual caps of FY2020 and FY2021. During HY2022, the COVID-19 pandemic is getting normalized and all production units of the Group adjusted their production plans in a timely manner according to the development of the pandemic and made preparation of raw materials, supplementary materials and packaging materials in advance. The Group recorded procurement transactions with Tong Ren Tang Group of approximately RMB155 million during HY2022. The procurement of the Relevant Products from Tong Ren Tang Group has been further increased to RMB189 million during 9M2022, which has far exceeded the actual transaction amount in FY2021 and accounted for almost 70.0% of the pro-rated annual cap of FY2022. With reference to the actual procurement amount in 9M2022, the estimated procurement amount in FY2022 may reach almost RMB252 million, representing almost a double of actual procurement amount in FY2021. Assuming the Group will be operating in a normal business environment without production disruption caused by COVID-19 pandemic, it is reasonable to set a higher annual cap for FY2023 based on the estimated procurement amount of FY2022.

Moreover, the annual cap of FY2023 is RMB500 million while the annual caps for the two years ending 31 December 2025 are estimated based on 10% annual increment, which is determined with reference to the increase in the actual procurement of the Group in FY2021 by 8.7% as compared to that of FY2020.

(2) Increasing procurement demand of the Relevant Products to fulfil the growth expectation of the Group's Products

During 2019 to 2021, the revenue of the Group showed a trend of sustained growth at a CAGR of about 9.84%. Given the benefits from (i) the favourable government policies in relation to the utilization of traditional Chinese medicines; (ii) the coverage of the retail outlets of Tong Ren Tang Group has been increasing; and (iii) Tong Ren Tang Group has been committed to strengthen its sales performance through e-commerce

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platforms, the Group is expecting to increase the exposure of the Group's products to a larger population of consumers through online and offline sales channels of Tong Ren Tang Group in the PRC market.

As advised by the management of the Company, for the Group, (i) the total production volume of traditional Chinese medicine in FY2021 increased by around 4.2% as compared to that of FY2020; and (ii) the total production value of traditional Chinese medicine in FY2021 increased by around 17.9% as compared to that of FY2020. In view of the increment in the Group's production volume in FY2021 and the expecting growth in the sales revenue of the Group, the Company estimates that the procurement volume of Relevant Products in the next three years will keep increasing in order to support the higher sales demand of the Group's products.

Furthermore, during FY2021, the number of outpatient visits in Tong Ren Tang Second Traditional Chinese Medicine Hospital was around 300,000, representing an increase of around 18% compared to the previous year. During FY2021, Nansanhuan Zhonglu Drugstore continued to enhance the product diversification in the store and introduced seasonal products to cater for consumer demand. During FY2021, sales revenue of the two companies amounted to RMB215 million, representing a year-on-year increase of approximately 8.9%.

From June 2022, Tong Ren Tang Medical Caring (a subsidiary of Tong Ren Tang Holdings) became one of the shareholders of Tong Ren Tang Second Traditional Chinese Medicine Hospital and Nansanhuan Zhonglu Drugstore. Further to the introduction of a new shareholder, Tong Ren Tang Second Traditional Chinese Medicine Hospital will further enhance its medical services and Nansanhuan Zhonglu Drugstore will expand the varieties of the products to meet the consumers' demand. It is reasonable to expect that the revenue of these two subsidiaries will be further increased in FY2023 onward. Accordingly, in order to secure the steady increase in sales revenue, as well as the production and supply of products, the procurement volume of the Relevant Products by the Group is expected to increase in the next three years.

(3) Increasing prices of raw materials in relation to Chinese medicines

As set forth in the section headed "Industry Overview", the Weekly Price-Based Index of Chinese Medicines increased significantly since August 2021. We understand from the management of the Company that the rising raw material price is mainly caused by the COVID-19 pandemic, leading to a shortage of labour and higher logistic cost. Moreover, the management of the Company identified 16 types of core raw materials which applied on the Group's best-selling products and the average increment in their unit price is around 10.3% during FY2021 and HY2022. Among these 16 types of core materials, Material A is a major raw material used in the Group's best-selling products. Due to its scarcity, Material A is a valuable Chinese medicine component and its average unit price in HY2022 has been increased by approximately 14.1% as compared to that in FY2021. Furthermore, as discussed in the previous section, the consumer price index in the PRC has been increased by approximately 2.8% in September 2022 as compared to that in September 2021. In view of the increasing trend of Chinese medicine raw materials

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and the price inflation rate in the PRC, the annual caps for the three years ending 31 December 2025 have considered the potential increment in the unit price of Relevant Products, leading to a higher transaction amount under the Renewed Master Procurement Agreement.

(4) Procurement transactions between Tong Ren Tang Chinese Medicine and Tong Ren Tang Group

According to the announcement of Tong Ren Tang Chinese Medicine dated 28 December 2021, the annual cap for the years ending 31 December 2023 and 2024 in relation to the purchase of the Angong Niu Huang Wan Powder from Tong Ren Tang Group is HKD60 million and HKD64 million, respectively, under the Angong Niu Huang Wan Powder master purchase agreement. As the Angong Niu Huang Wan Powder falls within the scope of the Relevant Products under the Master Procurement Agreement, the annual caps for the years ending 31 December 2023 and 2024 under Angong Niu Huang Wan Powder master purchase agreement are included in the proposed annual caps under the Renewed Master Procurement Agreement. Moreover, the estimated annual cap of the year ending 31 December 2025 in relation to the purchase of the Angong Niu Huang Wan Powder from Tong Ren Tang Group by Tong Ren Tang Chinese Medicine is estimated to maintain at HKD64 million which are included in the annual cap of the year ending 31 December 2025 under the Renewed Master Procurement Agreement. Since the number of retail outlets of Tong Ren Tang Chinese Medicine are relatively stable in FY2020 and FY2021 and Tong Ren Tang Chinese Medicine is taking a prudent approach to develop its retail network, it is reasonable to maintain the proposed annual cap for the year ending 31 December 2025 at the same level as that of the year ending 31 December 2024.

Having considered the above, in particular, (i) the increasing procurement transactions between the Group and Tong Ren Tang Group in the past three years; (ii) the demand of the Relevant Products are expecting to increase in view of the expected growth in the demand of the Group's products; (iii) the increasing trend in the prices for the Group's raw materials in the PRC market due to COVID-19 pandemic; and (iv) the procurement transactions between Tong Ren Tang Chinese Medicine and Tong Ren Tang Group, we are of the view that the annual caps for the three years ending 31 December 2025 under the Renewed Master Procurement Agreement are justifiable.

7. Internal control measures

As stated in the Letter from the Broad, the Group has a series of internal control procedures in place for its daily operation to ensure the Group's conformity with the pricing policies in relation to the transactions contemplated under the Framework Agreements.

- The members of the Group entered into specific implementation agreements in relation to sales transactions and procurement transactions with the members of Tong Ren Tang Group in which the pricing terms and payment terms are determined in accordance with the Framework Agreements.

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- As disclosed in the Letter from the Board, the relevant business departments of the Company has been continuously monitoring the pricing terms, receipt arrangements and actual transaction amount of each of the specific implementation agreements relating to the Framework Agreements.
- As disclosed in the Letter from the Board, 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.
- As disclosed in the Letter from the Board, the procurement department of the Company is 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. We have obtained and reviewed a sample of written price raising application which had been approved by the management of the Company.
- As disclosed in the Letter from the Board, regarding the amount of sales transactions and procurement transactions under the Framework Agreements, the financial department of the Company is responsible to collect and monitor the transaction amount of the Group's continuing connected transactions on a monthly basis to ensure the actual transaction amount not exceeding the approved annual caps and assess whether revision of annual cap is required.
- As disclosed in the 2020 Annual Report and 2021 Annual Report, the independent non-executive Directors have reviewed the continuing connected transactions under the Framework Agreements to ensure all transactions contemplated thereunder are carried out pursuant to the terms of the Framework Agreements and are in compliance with the Listing Rules.

We reviewed the selected implementation agreements and noticed that the members of the Group entered into specific implementation agreements in relation to sales transactions and procurement transactions with the members of Tong Ren Tang Group in which the pricing terms and payment terms are determined in accordance with the Framework Agreements. We noticed that these implementation agreements have been approved by the authorized representatives of the members of the Group and affixed with the company stamp.

Regarding the accumulated sales and procurement transaction amount with Tong Ren Tang Group, we reviewed the monthly report prepared by the Group for the Directors' review and the finance department is responsible to monitor whether the transaction amounts are within the approved annual cap.

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We also understood from the management of the Company that the selling prices of the Group's products may be adjusted based on the prevailing market conditions and the procurement prices of Relevant Products may be subject to adjustments with reference to the supply conditions of the Relevant Products. In view of such pricing adjustment mechanism, we have reviewed the Group's internal documents regarding (i) the application for adjusting selling prices of certain products; and (ii) the application for increasing the procurement prices of certain raw materials, and these documents containing the detailed background and rationale of price adjustments, have been reviewed and approved by the senior management of the Group. In addition, we reviewed the internal control review reports conducted by the internal control department of the Company for FY2020, FY2021 and HY2022 and noted there are no material deficiencies in relation to the continuing connected transactions contemplated under the Framework Agreements.

Apart from the above internal control measures conducted by the Group, pursuant to Rule 14A.56 of the Hong Kong Listing Rules, the Company has engaged an auditor to perform independent review on all of the Company's continuing connected transactions, including the transactions contemplated under the Framework Agreements. We have obtained and reviewed the Auditor's letters for FY2020 and FY2021 (the "**Auditor's Letters**") in respect of the continuing connected transactions of the Group. The Auditor's Letters indicate that the review was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor's Letters were issued to the Independent Board Committee confirming, among others, that nothing has come to the auditor's attention that would cause them to believe that the transactions were not conducted in accordance with the agreement terms and the relevant annual caps have been exceeded. The management of the Company has confirmed that the auditor will perform similar independent review and issue a relevant letter in respect of the Company's continuing connected transactions for the three years ending 31 December 2025.

Having considered the above, we are of the view that the aforementioned internal control measures are currently in place to safeguard the transactions contemplated under the Framework Agreements which will be conducted on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

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OPINION AND RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the terms of the Renewed Distribution Framework Agreement and Renewed Master Procurement Agreement (including the proposed annual caps) are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, and we advise the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM for approving the terms of the Renewed Distribution Framework Agreement and Renewed Master Procurement Agreement (including the proposed annual caps).

Yours faithfully,
For and on behalf of
Octal Capital Limited

Alan Fung
Managing Director

Wong Wai Leung
Executive Director

Note: Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 28 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions of listed companies in Hong Kong subject to the compliance to the Listing Rules and the Takeovers Code. Mr. Wong Wai Leung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008 and is also a responsible officer of Type 9 (asset management) regulated activities. Mr. Wong has accumulated decades of experience in corporate finance and investment banking and has participated in and completed various advisory transactions of listed companies in Hong Kong in respect of the Listing Rules and the Takeovers Code.

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 regarding 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 in total issued voting shares
Tong Ren Tang Ltd.	Beneficial Owner	600,000,000 (L) <i>(Note 1)</i>	92.01%	—	46.85%
Tong Ren Tang Holdings <i>(Note 2)</i>	Interest of controlled corporation by the substantial shareholder	600,000,000 (L) <i>(Note 1)</i>	92.01%	—	46.85%
	Beneficial Owner	9,480,000 (L) <i>(Note 1)</i>	1.45%	—	0.74%
	Beneficial Owner	8,397,000 (L) <i>(Note 1)</i>	—	1.34%	0.66%

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage in total issued voting shares
Total		617,877,000 (L) <i>(Note 1)</i>	93.46%	1.34%	48.24%
Yuan Sai Nan ^{<i>(Note 3)</i>}	Beneficial Owner	35,732,000 (L) <i>(Note 1)</i>	—	5.68%	2.79%
Hillhouse Capital Advisors, Ltd. <i>(Note 4)</i>	Investment manager	47,663,000 (L) <i>(Note 1)</i>	—	7.58%	3.72%

Notes:

- (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 8,397,000 H shares of the Company.
- (3) Yuan Sai Nan held 35,732,000 H shares of the Company in long position.
- (4) 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 involved in the changes above. 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.

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 2021, 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 2021, 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, proposed 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, member of Standing Committee of Party Committee	—
Jin Tao	general manager assistant	—

Name of Director and Supervisor	Positions held in specific companies	
	Tong Ren Tang Holdings	Tong Ren Tang Ltd.
Guo Ya Qing	member of the commission for discipline inspection	—

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

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

Name	Qualification
Octal 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, Octal Capital 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 2021, 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 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. Jia Ze Tao, who also serves as the secretary to the Board.

13. DOCUMENTS ON DISPLAY

Copies of the following documents will be on display on the website of the Stock Exchange at (www.hkexnews.hk) and the website of the Company at (<http://www.tongrentangkj.com>) from the date of this circular up to and including the date of the EGM:

- (a) the Distribution Framework Agreement dated 28 November 2022;
- (b) the Master Procurement Agreement dated 28 November 2022;
- (c) the letter from the Independent Board Committee as set out on pages 29 to 30 of this circular;
- (d) the letter from the Independent Financial Adviser as set out on pages 31 to 54 of this circular; and
- (e) the written consent of Octal Capital referred to in this Appendix.



Tong Ren Tang Technologies Co. Ltd.
北京同仁堂科技发展股份有限公司

(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 Thursday, 22 December 2022 at 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 28 November 2022 and the annual caps for the continuing connected transactions contemplated thereunder for the three years from 1 January 2023 to 31 December 2025 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 28 November 2022 and the annual caps for the continuing connected transactions contemplated thereunder for the three years from 1 January 2023 to 31 December 2025 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 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.

NOTICE OF EGM

3. To consider and, if thought fit, to approve the appointment of Ms. Feng Li as a non-executive Director of the eighth session of the Board of the Company and the remuneration proposed by the Board, and to authorize the Board to enter into the service contract with Ms. Feng Li.

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

Beijing, the PRC
2 December 2022

As at the date of this notice, the Board comprises Mr. Gu Hai Ou, Mr. Wang Yu Wei and Ms. Feng Zhi Mei as executive Directors; Mr. Jin Tao, Mr. Ma Guan Yu and Ms. Guo Ya Qing as non-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 Tuesday, 22 November 2022 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.

NOTICE OF EGM

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

The register of members of the Company will be closed from Tuesday, 22 November 2022 to Thursday, 22 December 2022 (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 Monday, 21 November 2022.

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 Shops 1712–1716, 17th 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: ir@tongrentangkj.com