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BEIJING TONG REN TANG CHINESE MEDICINE COMPANY LIMITED

北京同仁堂國藥有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 3613)

**CONTINUING CONNECTED TRANSACTIONS
REGARDING
THE RENEWED ADVERTISING AGENCY FRAMEWORK AGREEMENT**

THE RENEWED ADVERTISING AGENCY FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated 28 April 2020 in relation to the continuing connected transactions contemplated under the Existing Advertising Agency Framework Agreement with Tong Ren Tang Century Advertising.

As the Existing Advertising Agency Framework Agreement has expired on 31 December 2022, the Company has entered into the Renewed Advertising Agency Framework Agreement with Tong Ren Tang Century Advertising on 22 March 2023 to renew the advertising arrangement, pursuant to which, the Company agreed to entrust Tong Ren Tang Century Advertising, as a non-exclusive advertising agent of the Group, to provide the Advertising Agency Services to the Group in the PRC from 22 March 2023 to 31 December 2025.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Tong Ren Tang Technologies, who is interested in approximately 38.05% of the issued share capital of the Company, is a controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Tong Ren Tang Century Advertising is a wholly-owned subsidiary of Tong Ren Tang Technologies, thus it is also a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Renewed Advertising Agency Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) of the proposed annual caps of the transactions contemplated under the Renewed Advertising Agency Framework Agreement exceed 0.1% but less than 5%, the transactions contemplated thereunder are subject to reporting, announcement and annual review requirements but exempt from the independent Shareholders' approval requirements under the Listing Rules.

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The Renewed Advertising Agency Framework Agreement

- Date** : 22 March 2023 (after trading hours)
- Parties** : (1) the Company
(2) Tong Ren Tang Century Advertising
- Term** : From 22 March 2023 to 31 December 2025 (both days inclusive).
- Major terms and conditions** :
- The Company agreed to entrust Tong Ren Tang Century Advertising, as a non-exclusive advertising agent of the Group, to provide the Advertising Agency Services to the Group in the PRC. Tong Ren Tang Century Advertising agreed to provide such services to the Group.
 - The content of the advertisement which the members of the Group entrust Tong Ren Tang Century Advertising to publish shall be in compliance with the laws, regulations and rules of the PRC in relation to the advertising and drug administration, and the publication of such advertisement shall be duly approved by relevant authorities, if needed.
- Pricing policy** : The service fees for the Advertising Agency Services to be provided by Tong Ren Tang Century Advertising shall be determined and agreed upon between the members of the Group and Tong Ren Tang Century Advertising for each specific transaction on arm's length negotiations in accordance with the following pricing mechanism:
- (i) the fee proposal provided by Tong Ren Tang Century Advertising shall comprise the actual fee quotation offered by the advertisers who are third parties and a reasonable service fee for the Advertising Agency Services of Tong Ren Tang Century Advertising; and
 - (ii) for the same or similar types of services in the same or similar locations of the services being provided, the service fees shall be determined with reference to the market price, which is based on the fee proposal and terms obtained from at least two advertisers who are independent third parties in the PRC markets prior to an implementation agreement is entered into.

The service fees and terms to be charged by Tong Ren Tang Century Advertising shall be comparable to the service fees and terms obtained by the members of the Group from other advertisers who are independent third parties under the same condition.

Payment of the fees : The specific payment details will be stipulated separately in the implementation agreement. In general, the service fees for the Advertising Agency Services will be settled within three months after the invoice of Tong Ren Tang Century Advertising is issued.

Implementation Agreements

Members of the Group and Tong Ren Tang Century Advertising will enter into, from time to time and as necessary, separate implementation agreements for each of the specific transactions contemplated under the Renewed Advertising Agency Framework Agreement during the term thereof. Each implementation agreement will set out the details of the Advertising Agency Services provided, any adjustments of advertisement schedule, prices and other relevant terms thereof. Any such implementation agreements will be within the ambit of the Renewed Advertising Agency Framework Agreement and the relevant annual caps, and if exceeded, the Company will comply with the relevant Listing Rules accordingly.

Historical figures and proposed annual caps

Set out below are the aggregate historical amounts paid or payable by the Group in respect of the Advertising Agency Services' fees for the years ended 31 December 2020, 2021 and 2022 as well as the previous annual caps under the Existing Advertising Agency Framework Agreement:

	For the years ended 31 December					
	2020		2021		2022	
	(HK\$'000) (Audited)		(HK\$'000) (Audited)		(HK\$'000) (Audited)	
	Actual amounts	Historical Cap	Actual amounts	Historical Cap	Actual amounts	Historical Cap
Amounts paid/payable under the Existing Advertising Agency Framework Agreement (exclusive of value-added tax in the PRC)	1,235	6,200	2,552	7,600	1,318	8,900

The low utilisation of the historical annual caps for the three years ended 31 December 2022 was due to the impact of the epidemic, the overall economic environment was unstable, and some advertising plans have been postponed or suspended under the implementation of strict cost control.

The proposed annual caps (exclusive of value-added tax in the PRC) under the Renewed Advertising Agency Framework Agreement for the three years ending 31 December 2025 are set out below:

	For the years ending 31 December		
	2023 (HK\$'000)	2024 (HK\$'000)	2025 (HK\$'000)
Proposed annual caps (exclusive of value-added tax in the PRC)	8,300 <i>(Note)</i>	8,300	8,300

Note: From 1 January 2023 and up to the date of this announcement, Tong Ren Tang Century Advertising had not provided any Advertising Agency Services to the Group.

The proposed annual caps set out above are determined based on the following factors which are applicable to the Renewed Advertising Agency Framework Agreement:

- (a) the historical amount paid or payable by the Group to Tong Ren Tang Century Advertising and the historical annual caps as disclosed above;
- (b) the estimated increase of the Advertising Agency Services' needs of the Group for the next three years ending 31 December 2025 as the epidemic has passed and the economy of the PRC has been gradually recovering, the Group will continue to strengthen product marketing and advertising in the next three years; and
- (c) a buffer of approximately 10% for any unexpected increase of the Advertising Agency Services' need of the Group and for any potential appreciation in the RMB against HK\$.

REASONS FOR ENTERING INTO THE RENEWED ADVERTISING AGENCY FRAMEWORK AGREEMENT

The Directors believe that engaging Tong Ren Tang Century Advertising to provide the Advertising Agency Services for the Group, is more efficient and effective in terms of publicizing and promoting the brand image of "Tong Ren Tang" and the products of the Group, in the building-up and maintaining of the overall image of "Tong Ren Tang", as well as in the integration of the needs for advertising services among the members of Tong Ren Tang Group.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Renewed Advertising Agency Framework Agreement (i) have been negotiated on an arm's length basis; (ii) have been conducted and will be conducted on normal commercial terms or better; (iii) are entered into in the ordinary and usual course of business of the Group; and (iv) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

INTERNAL CONTROL MEASURES

In order to ensure that the aforesaid pricing policies for the transactions contemplated under the Renewed Advertising Agency Framework Agreement will be adhered to, the Company will continue to adopt the following internal control measures:

- (i) the responsible person of the relevant business department of the Company shall monitor the performance of the implementation agreements and the service fees of the Advertising Agency Services to be provided by Tong Ren Tang Century Advertising to ensure that the relevant service fees are determined in strict accordance with the pricing policies as set out in the Renewed Advertising Agency Framework Agreement. If any revision of terms or any price adjustment is required or if any imminent or possible exceeding of the annual caps is discovered due to change of actual circumstances, the relevant business department is required to communicate to the finance department of the Company which will consider to initiate the appropriate approval process. Relevant business department shall also regularly report the actual transaction amount to the finance department of the Company;

- (ii) the finance department of the Company is responsible for monitoring, collecting, and evaluating the specific information in relation to the implementation agreements under the Renewed Advertising Agency Framework Agreement (including but not limited to the pricing terms of each specific transaction, payment arrangement and the actual transaction amount) to ensure the service fees charged by Tong Ren Tang Century Advertising are in compliance with the pricing policies and the aggregate transaction amount does not exceed the proposed annual caps. In particular, based on the actual transaction amount regularly reported by the relevant business department of the Company, the finance department will collect and add up the transaction amount of the continuing connected transactions. The finance department maintains a record, which is updated monthly (or more frequently if it is determined necessary), to store all the information in relation to the service fees paid and payable to Tong Ren Tang Century Advertising according to the implementation agreements under the Renewed Advertising Agency Framework Agreement. The finance department will check the information monthly (or more frequently if it is determined necessary) to ensure reasonableness of the continuing connected transactions; and
- (iii) the independent non-executive Directors and the auditor of the Company will on a regular basis be provided with (i) the Renewed Advertising Agency Framework Agreement; (ii) the fee quotations obtained by the Group from advertisers who are independent third parties in relation to the same type of Advertising Agency Services; (iii) agreements entered into between the Group and advertisers who are independent third parties for the same type of Advertising Agency Services; and (iv) separate implementation agreements entered into between the Group and Tong Ren Tang Century Advertising. The independent non-executive Directors will also review and compare the relevant payment terms, payment method and price payable under these agreements and to ensure that the transactions contemplated under the Renewed Advertising Agency Framework Agreement are conducted on normal commercial terms or better, and are fair and reasonable. The auditor of the Company will review and confirm the transactions contemplated under the Renewed Advertising Agency Framework Agreement are conducted in accordance with the terms of the Renewed Advertising Agency Framework Agreement on an annual basis.

Taking into account of: (i) the above methods and procedures comprise necessary components of an internal control system with designated department and responsible officer, clear approval process and monitoring system and detailed and explicit assessment criteria; and (ii) the above-mentioned review procedures against the detailed and explicit assessment criteria can ensure that the transactions will be executed in compliance with the pricing principles stipulated in the Renewed Advertising Agency Framework Agreement. The Directors (including the independent non-executive Directors) are of the view that the Company has implemented effective internal control measures, and such methods and procedures can ensure that the transactions contemplated under the Renewed Advertising Agency Framework Agreement will be conducted on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Tong Ren Tang Technologies, who is interested in approximately 38.05% of the issued share capital of the Company, is a controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules. Tong Ren Tang Century Advertising is a wholly-owned subsidiary of Tong Ren Tang Technologies, thus it is also a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Renewed Advertising Agency Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) of the proposed annual caps of the transactions contemplated under the Renewed Advertising Agency Framework Agreement exceed 0.1% but less than 5%, the transactions contemplated thereunder are subject to reporting, announcement and annual review requirements but exempt from the independent Shareholders' approval requirements under the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, there is no continuing transaction entered into between any member of the Group and the Tong Ren Tang Century Advertising and its ultimate beneficial owner(s) or otherwise related, which would be, together with the transactions contemplated under the Renewed Advertising Agency Framework Agreement, aggregated under the Listing Rules.

Ms. Feng Li (who is the non-executive director of Tong Ren Tang Technologies), a non-executive Director of the Company, is considered to have material interests in the transactions contemplated under the Renewed Advertising Agency Framework Agreement by virtue of her position in Tong Ren Tang Technologies, for good corporate governance, Ms. Feng Li has abstained from voting on the relevant Board resolutions in the Board meeting to approve the transactions contemplated under the Renewed Advertising Agency Framework Agreement.

Save as disclosed, there is no other Director who has a material interest in the transactions contemplated under the Renewed Advertising Agency Framework Agreement.

GENERAL INFORMATION

The Company

The Company is principally engaged in manufacturing, retail and wholesale of Chinese medicine products and healthcare products and provision of Chinese medical consultation and treatments.

Tong Ren Tang Technologies

Tong Ren Tang Technologies is principally engaged in the manufacturing and sale of Chinese medicines.

Tong Ren Tang Century Advertising

Tong Ren Tang Century Advertising is principally engaged in advertising design, production, agency and publication, etc..

DEFINITIONS

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

“Advertising Agency Services”	the advertising agency services to be provided by Tong Ren Tang Century Advertising to the Group under the Renewed Advertising Agency Framework Agreement, which mainly include the advertising design, publication, production, exhibition, consultation and other related services in respect of the brand and products of the Group
“associate(s)”	has the meaning ascribed thereto under the Listing Rules

“Board”	the board of Directors of the Company
“Company”	Beijing Tong Ren Tang Chinese Medicine Company Limited, a limited company incorporated in Hong Kong, the shares of which were listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“controlling shareholder”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the directors of the Company
“Existing Advertising Agency Framework Agreement”	an advertising agency framework agreement dated 28 April 2020 entered into between the Company and Tong Ren Tang Century Advertising, pursuant to which, the Company agreed to entrust Tong Ren Tang Century Advertising, as a non-exclusive advertising agent of the Group, to provide the Advertising Agency Services to the Group in the PRC for the period from 1 May 2020 to 31 December 2022
“Group”	the Company and its subsidiaries (either directly owned or indirectly owned)
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“PRC”	the People’s Republic of China and, for the purpose of this announcement, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan
“Renewed Advertising Agency Framework Agreement”	a new advertising agency framework agreement dated 22 March 2023 entered into between the Company and Tong Ren Tang Century Advertising, pursuant to which, the Company agreed to entrust Tong Ren Tang Century Advertising, as a non-exclusive advertising agent of the Group, to provide the Advertising Agency Services to the Group in the PRC from 22 March 2023 to 31 December 2025
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tong Ren Tang Century Advertising”	Beijing Tong Ren Tang Century Advertising Co., Ltd. (北京同仁堂世紀廣告有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Tong Ren Tang Technologies
“Tong Ren Tang Group”	Tong Ren Tang Holdings, its subsidiaries (either directly owned or indirectly owned), its jointly-controlled entities and its associates

“Tong Ren Tang Holdings”

China Beijing Tong Ren Tang Group Co., Ltd., a state-owned enterprise established in the PRC on 17 August 1992 and is the ultimate controlling shareholder of the Company

“Tong Ren Tang Technologies”

Tong Ren Tang Technologies Co. Ltd., a joint stock limited company established in the PRC on 22 March 2000, the H shares of which were listed on the Main Board of the Stock Exchange, and is the immediate holding company of the Company

“%”

per cents.

By order of the Board
Beijing Tong Ren Tang
Chinese Medicine Company Limited
Ding Yong Ling
Chairman

Hong Kong, 22 March 2023

As at the date of this announcement, the composition of the Board is as follows:

Executive Directors:

Ms. Ding Yong Ling (*Chairman*)
Mr. Chen Fei
Ms. Lin Man

Independent Non-executive Directors:

Mr. Tsang Yok Sing, Jasper
Mr. Xu Hong Xi
Mr. Chan Ngai Chi

Non-executive Director:

Ms. Feng Li