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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

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**Tong Ren Tang Technologies Co. Ltd.**

**北京同仁堂科技發展股份有限公司**

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

**(Stock code: 1666)**

**PROPOSED APPOINTMENT OF THE DIRECTOR;  
PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
AND  
NOTICE OF EGM**

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



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A letter from the Board is set out on pages 4 to 23 of this circular. A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 24 to 25 of this circular. A letter from the Independent Financial Advisor, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 45 of this circular.

A notice convening the EGM to be held at No.52 Dong Xing Long Street, Dong Cheng District, Beijing, the PRC at 9:30 a.m. on Friday, 16 December 2016, is set out on pages 52 to 54 of this circular.

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

31 October 2016

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## CONTENTS

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	<i>Page</i>
<b>DEFINITIONS</b> .....	1
<b>LETTER FROM THE BOARD</b> .....	4
1. INTRODUCTION .....	4
2. PROPOSED APPOINTMENT OF THE DIRECTOR .....	5
3. DISTRIBUTION FRAMEWORK AGREEMENT .....	6
4. MASTER PROCUREMENT AGREEMENT .....	13
5. HONG KONG LISTING RULES IMPLICATIONS .....	21
6. INFORMATION ON PARTIES TO THE CONTINUING CONNECTED TRANSACTIONS .....	21
7. EGM .....	21
8. RECOMMENDATION .....	22
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	24
<b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR</b> .....	26
<b>APPENDIX – GENERAL INFORMATION</b> .....	46
<b>NOTICE OF EGM</b> .....	52

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## DEFINITIONS

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

“Articles of Associations”	means the articles of association of the Company
“associate(s)”	has the meaning ascribed to it under the Hong Kong Listing Rules
“Board”	means the board of Directors
“Company”	means Tong Ren Tang Technologies Co. Ltd. (北京同仁堂科技發展股份有限公司), a joint stock company incorporated in the PRC with limited liability and the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange
“controlling shareholder”	has the meaning ascribed to it under the Hong Kong Listing Rules
“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 and 29 September 2016, 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 may purchase products from the Group and then distribute the same to retailers or end-users
“Domestic Share(s)”	means the ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is/are subscribed for in RMB
“EGM”	means the extraordinary general meeting of the Company to be convened at No.52 Dong Xing Long Street, Dong Cheng District, Beijing, the PRC at 9:30 a.m. on Friday, 16 December 2016, to consider and, if thought fit, to approve the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement, as well as the proposed annual caps for the respective continuing connected transactions contemplated thereunder
“Group”	means the Company and its subsidiaries
“H Share(s)”	means the ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, which is/are listed on the Hong Kong Stock Exchange and subscribed for in Hong Kong dollars

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## DEFINITIONS

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“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 Miss. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan, 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 “China Everbright Capital”	means China Everbright Capital Limited, a licensed corporation under SFO to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities, and the independent financial adviser appointed to advise the Independent Board Committee and the independent Shareholders in relation to the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement, as well as the proposed annual caps for the respective continuing connected transactions contemplated thereunder
“Independent Shareholders”	means Shareholders other than Tong Ren Tang Holdings and its associates
“Latest Practicable Date”	means 25 October 2016, 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 and 29 September 2016, which is still subject to the approval by the Independent Shareholders, and pursuant to which the Group agreed to procure from Tong Ren Tang Group and Tong Ren Tang Group agreed to supply to the Group, the Relevant Products for the Company’s production, sale and distribution
“Model Code”	means the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules

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## DEFINITIONS

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“PRC”	the People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Relevant Products”	means the raw materials, semi-finished products and finished products supplied by Tong Ren Tang Group to the Group under the renewed Master Procurement Agreement, collectively
“RMB”	means Renminbi, the lawful currency of the PRC
“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 Chinese Medicine”	means Beijing Tong Ren Tang Chinese Medicine Company Limited (北京同仁堂國藥有限公司), a subsidiary of the Company which was incorporated in Hong Kong with limited liability and the issued shares of which are listed on the Growth Enterprise Market of the Hong Kong Stock Exchange
“Tong Ren Tang Group”	means Tong Ren Tang Holdings and its associates (other than the Group)
“Tong Ren Tang Holdings”	means China Beijing Tong Ren Tang Group Co., Ltd. (中國北京同仁堂(集團)有限責任公司), a state-owned enterprise established in the PRC and the ultimate controlling shareholder of the Company
“Tong Ren Tang Ltd.”	means Beijing Tong Ren Tang Company Limited (北京同仁堂股份有限公司), a joint stock limited company established in the PRC, whose shares are listed on the Shanghai Stock Exchange, and is the holding company of the Company

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## LETTER FROM THE BOARD

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# Tong Ren Tang Technologies Co. Ltd.

## 北京同仁堂科技發展股份有限公司

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

(Stock code: 1666)

*Executive Directors:*

Mr. Gao Zhen Kun  
Mr. Gong Qin  
Mr. Gu Hai Ou  
Mr. Li Bin  
Mr. Wang Yu Wei  
Ms. Fang Jia Zhi

*Independent Non-executive Directors:*

Miss. Tam Wai Chu, Maria  
Mr. Ting Leung Huel, Stephen  
Mr. Jin Shi Yuan

*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

31 October 2016

*To the Shareholders*

Dear Sir or Madam,

### **PROPOSED APPOINTMENT OF THE DIRECTOR AND PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

#### **1. INTRODUCTION**

Reference is made to the announcement of the Company dated 29 September 2016 in relation to the renewal of certain continuing connected transactions of the Company and the announcement of the Company dated 25 October 2016 in relation to the proposed appointment of the Director.

On 29 September 2016, the Company and Tong Ren Tang Holdings renewed a series of continuing connected transactions between them including 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 2019. Pursuant to the Hong Kong Listing

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## LETTER FROM THE BOARD

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Rules, both of the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement as well as the proposed annual caps for the respective continuing connected transactions contemplated thereunder are still subject to the approval by the Independent Shareholders.

The purpose of this circular is to provide you with, among other things, (i) detailed information regarding the proposed appointment of the Director and 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 2019; (ii) the recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from China Everbright Capital to the Independent Board Committee and the Independent Shareholders; and (iv) a notice convening the EGM.

### **2. PROPOSED APPOINTMENT OF THE DIRECTOR**

On 25 October 2016, Mr. Gong Qin applied for resignation from his position as an executive Director and the vice chairman of the Board due to adjustment of work arrangement. The resignation of Mr. Gong Qin will take effect upon the conclusion of the EGM.

Mr. Gong Qin has confirmed that he has no disagreement with the Board and there is no matter relating to his resignation that needs to be brought to the attention of the Shareholders and creditors of the Company. The Company would like to express its sincere gratitude to Mr. Gong Qin for his contributions to the development of the Company during his term of office.

On the same day, the Board approved that Mr. Rao Zu Hai was nominated as an executive Director, and the appointment is subject to the approval by the Shareholders at a general meeting of the Company in accordance with the Articles of Association. Mr. Rao Zu Hai's term of office will take effect from the date of approval by the Shareholders at the EGM and until the expiration of the term of the current session of the Board.

#### **Biographical details of Mr. Rao Zu Hai**

Mr. Rao Zu Hai, aged 42, holding a postgraduate degree. Mr. Rao Zu Hai successively served as vice manager in the capital management department of South Industry Assets Management Co., Ltd. with the adjunct post of general manager in Beijing North Crystal Technology Investment Consulting Co., Ltd., and the manager in the capital management department of South Industry Assets Management Co., Ltd. with the adjunct post of general manager in Beijing North Crystal Technology Investment Consulting Co., Ltd.. Mr. Rao Zu Hai currently serves as a vice general manager of Tong Ren Tang Holdings and the general manager of Tong Ren Tang Investment Development Co., Ltd..

Save as disclosed above and as at the Latest Practicable Date, Mr. Rao Zu Hai does not have any relationships with any Directors, senior management, substantial or controlling shareholder(s) of the Company, or holds any other positions in the Company or any of its subsidiaries, or any directorships in other listed companies in the last three years.

As at the Latest Practicable Date, Mr. Rao Zu Hai does not have any interest in shares of the Company within the meaning of Part XV of the SFO.

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## LETTER FROM THE BOARD

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Upon due appointment as an executive Director, Mr. Rao Zu Hai will enter into a service contract with the Company for a term commencing from the date of appointment and ending on the expiration of the term of the current session of the Board. Pursuant to the Articles of Association, Mr. Rao Zu Hai will be subject to retirement by rotation and re-election upon the expiry of his term of office.

Mr. Rao Zu Hai's remuneration as an executive Director will be determined by the Board according to the authorisation to be granted by the Shareholders at the EGM.

Save as disclosed above, the Board is not aware of any other matters in relation to Mr. Rao Zu Hai's appointment as an 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.

### 3. DISTRIBUTION FRAMEWORK AGREEMENT

#### Major Terms of the Renewed Distribution Framework Agreement

Renewal Date: 29 September 2016

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 2017 to 31 December 2019.

During the term of the agreement, the Company has the right to terminate the agreement by giving six months' prior notice in writing to Tong Ren Tang Holdings.

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

- The Company agreed that it or any of its subsidiaries may, from time to time, sell its products to members of Tong Ren Tang Group.
- Tong Ren Tang Holdings agreed that as a distributor of the Group, any member of Tong Ren Tang Group may, from time to time, purchase products from the Group and then distribute the products to retailers and/or end-users.



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## LETTER FROM THE BOARD

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- 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 individual implementation agreement.

**Pricing Policy:**

Under the Distribution Framework Agreement, the price of the products to be sold by the Group to Tong Ren Tang Group shall not be lower than that charged by the Group to other independent third parties and shall be determined in accordance with a reasonable cost plus a fair and reasonable profit margin: (i) the reasonable cost shall be determined by reference to the cost of the raw materials, the cost of labour and the manufacturing expense, etc.; and (ii) the profit margin shall be determined by reference to the prevailing market and the then market price for comparable products in the related industry, and the average gross profit rate of the Group's products in the previous years, of which shall not exceed 50% (the average gross profit rate of the majority products was between 30% to 50%).

**Payment of the Fees:**

Payment arrangement will be negotiated by the parties and stated in individual implementation agreement, but shall be the same as the arrangement with other independent third parties. The payment shall be settled in cash or by acceptance bill, and the account period is usually between 30 days and 120 days.

**Implementation Agreement:**

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

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

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## LETTER FROM THE BOARD

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### Annual Caps

#### *Historical Transaction Amount*

Historical transaction amount under the Distribution Framework Agreement for the two years ended 31 December 2015 and for the eight months ended 31 August 2016 is set out below:

	<b>Year ended</b>	<b>Year ended</b>	<b>Eight months</b>
	<b>31 December 2014</b>	<b>31 December 2015</b>	<b>ended</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<b>31 August 2016</b>
			<i>(RMB million)</i>
Historical Transaction			
Amount	436.366	700.879	508.510

In the year 2014 and 2015, the utilisation rate of annual caps under the Distribution Framework Agreement has maintained at a relatively high level of approximately 93% and 77%, respectively. The Company anticipates that the utilisation rate of annual cap under the Distribution Framework Agreement for 2016 will be basically in line with that for 2015, reaching approximately 75%. Although the actual transaction amount was RMB508.510 million for the eight months ended 31 August 2016, the Company expects that the sales amount for the fourth quarter under the Distribution Framework Agreement will further increase with reference to the following considerations: the Company continually expands the volume of products portfolio, leading to the overall continuous growth in the scale and portfolio of the products, hence the demands of some products in 2016 further increases comparing with 2015. Moreover, 42 kinds of products achieved a sales amount of more than RMB5 million in the first half of 2016, comparing with that of 39 kinds in the same period of 2015, among which, the sales amount of significantly increasing products, such as Product A series and Product B series represented an year-on-year increase over 40% in the first half of 2016, while Product C series, Product D series, Product E series, Product F series, and Product G series represented an year-on-year increase over 20% in the first half of 2016. The Company anticipates that the aforesaid products will maintain the increase trend in the fourth quarter. Meanwhile, as autumn and winter are good time for taking tonic, so consumers' demands on nourishing products (such as Product B series, Product H series and etc.) are anticipated to increase vigorously as well. Moreover, the cold weather plus that diseases like cardiovascular disease and cold occur frequently in the fourth quarter, it is anticipated that consumers' demands on corresponding products (such as Product I series, Product J series and etc.) will also increase vigorously. It is anticipated that the sales amount of Product H series, Product I series and Product J series will respectively increase more than 30%, most of which will reflect in the fourth quarter. Therefore, the sales of afore-mentioned products in the fourth quarter will be better than that of the second and third quarter, and the sales amount under the Distribution Framework Agreement will further increase in the fourth quarter. The total sales amount of the above-mentioned ten products series in 2015 represented 40% to 50% of the Group's total sales revenue. In addition, the compound annual growth rate of sales amount of Tong Ren Tang Chinese Medicine was over 20% in the past three years, and the amount Tong Ren Tang Chinese Medicine's own products distributed through the sales networks of Tong Ren Tang Group will increase continuously. Besides, more than 40 retail outlets with the brand of "Tong Ren Tang" were

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## LETTER FROM THE BOARD

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newly opened in the first half of 2016, which are closing to the number increased in the last whole year. Such increase is also expected to provide strong support for the Company's distribution business in the fourth quarter.

### *Historical Annual Caps*

The annual caps for the transactions contemplated under the Distribution Framework Agreement for the three years ending 31 December 2016 are set out below:

	<b>Year ended 31 December 2014</b> <i>(RMB million)</i>	<b>Year ended 31 December 2015</b> <i>(RMB million)</i>	<b>Year ending 31 December 2016</b> <i>(RMB million)</i>
Historical Annual Caps	470	910	1,300

The Directors have been monitoring the transaction amount contemplated under the Distribution Framework Agreement, and for the two years ended 31 December 2015, the annual caps for each year have not been exceeded. As at the Latest Practicable Date and for the year ending 31 December 2016, the annual cap for the transactions contemplated under the Distribution Framework Agreement for the year ending 31 December 2016 has not been and is not expected to be exceeded.

### *Proposed Annual Caps*

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

	<b>Year ending 31 December 2017</b> <i>(RMB million)</i>	<b>Year ending 31 December 2018</b> <i>(RMB million)</i>	<b>Year ending 31 December 2019</b> <i>(RMB million)</i>
Expected Annual Caps	1,300	1,550	1,850

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

- (i) the historical transaction amount for the two years ended 31 December 2015 and the annual caps for three years ending 31 December 2016. The actual transaction amount of the year ended 31 December 2015 under the Distribution Framework Agreement increased substantially by approximately 60% comparing with that of 2014. For the eight months ended 31 August 2016, the actual transaction amount under the Distribution Framework Agreement was RMB508.510 million, which has already exceeded the amount of RMB436.366 million generated in the whole year of 2014, and also witnessed an increase by 22.3% as compared to the same period in the year of 2015 of RMB415.833 million. As stated above, affected by seasonal factors and various factors such as the cold weather and dry climate, the Company anticipates that the

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## LETTER FROM THE BOARD

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actual transaction amount of 2016 will continue to increase and the utilisation rate of annual cap will be basically in line with that of 2015, reaching approximately 75%, and the actual transaction amount in the next three years under the Distribution Framework Agreement will also maintain the increasing trend year by year;

- (ii). with the continuing development of the business in the Company and its subsidiaries, the sales revenue of the Group shows a trend of sustained growth. The compound annual growth rate of the Group's sales revenue in the past five years was approximately 20%, and compound annual growth rate of the net profit was approximately 27%. As at 31 December 2015, 33 kinds of products achieved a sales amount of more than RMB10 million, representing an increase of 12 kinds of products as compared with that of 2011. In the future, the Company will continue to take modern Chinese Medicine as its core business, vigorously cultivate potential varieties, further optimise the structure of Chinese patent medicine products, and strive to meet the demand for different types of medicine products so as to enhance the Company's market competitive advantage. Meantime, the Company will facilitate its subsidiaries to constantly develop in-depth in cosmetics, food and other fields and expand the product areas and product types relying on their own professional orientation. Thus, the Company anticipates that the proposed transaction amount under the Distribution Framework Agreement will increase continuously;
- (iii). the expected expansion of the sales network with the brand of "Tong Ren Tang" operated by Tong Ren Tang Group will result in the increase in the transaction amount under the Distribution Framework Agreement. As at 31 December 2015, the number of retail outlets with the brand of "Tong Ren Tang" reached to more than 500, which recorded an increase over 10% as compared to the same period of the prior year. Meanwhile, the members of Tong Ren Tang Group may increase due to any potential new investments in the next three years, which will inevitably result in increase in the transaction amount under the Distribution Framework Agreement;
- (iv). with the transform of people's health concept and the advancement of modernisation of traditional Chinese Medicine, Chinese Medicine is attracting more and more attention from consumers because of its natural origin, low side effects and relatively economic advantages as compared with those chemical drugs such as Western Medicine. In recent years, China has introduced a series of policies to support Chinese Medicine, which has created a favorable policy environment for the development of the Group. In May 2015, the Circular on Printing and Distributing the Opinions on Promoting the Reform of Drug Prices was issued, proposing to abolish the original government-determined drug prices with effect from 1 June 2015, apart from narcotic drugs and Category I psychotropic substances. With further liberalisation of price determination of pharmaceuticals, it may lead to the adjustment of the drug prices of the Company. Meanwhile, as the overall market price of raw materials of traditional Chinese Medicine is increasing, the pharmaceuticals of the Group will have room for price increase. Accordingly, it is expected by the Company that the transaction amount under the Distribution Framework Agreement will continue to grow;

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## LETTER FROM THE BOARD

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- (v). Tong Ren Tang Chinese Medicine will continue to distribute certain of its own products through the sales networks of Tong Ren Tang Group. The compound annual growth rate of the Tong Ren Tang Chinese Medicine's sales revenue in the past three years was more than 20%. Meanwhile, Tong Ren Tang Group's demand of self-owned products of Tong Ren Tang Chinese Medicine will also continue to grow; and
- (vi). a buffer has been included for the estimated amount of sales of products by the Group under the renewed Distribution Framework Agreement for any unexpected increase in the aforesaid amount in the next three years.

### **Reasons for and benefit of renewal of the Distribution Framework Agreement**

Tong Ren Tang Holdings, with its subsidiaries and associates located in the PRC, have a sales network providing a wide coverage. The Directors consider that the utilisation of the sales network of Tong Ren Tang Group to distribute the products of the Group will give full play to the advantage of the 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.

In addition, the historical transaction amount under the Distribution Framework Agreement represents a less prominent portion in the Group's annual revenue. The aforesaid portions were all lower than 20% in 2013, 2014, 2015, which were approximately 12.03%, 13.06% and 17.58%, respectively. The Group will continue to expand its domestic sales channels and will continue to strengthen cooperation with other distributors while enhancing the cooperation with Tong Ren Tang Group. The anticipated portion that the actual transaction amount represents in the Group's future revenue under the Distribution Framework Agreement will not increase significantly in the future. The company does not have a material reliance on Tong Ren Tang Group.

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

### **Measures of Internal Control**

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

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

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## LETTER FROM THE BOARD

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- (b) the financial department of the Company is responsible to continuously monitor, collect and review the pricing terms, payment arrangements and actual transaction amount of each of the specific implementation agreements relating to the renewed Distribution Framework Agreement, and the relevant business department of the Company will also continue to monitor the aforesaid information so as to ensure all transactions under the renewed Distribution Framework Agreement are entered into on normal commercial terms or better, are fair and reasonable, the terms and conditions available to the Group are no less favorable than those available to independent third parties, and such transactions are carried out pursuant to the terms of the renewed Distribution Framework Agreement;
- (c) with the relatively stable price of the majority of the Chinese patent medicine products, the sales department of the Company are responsible for monitoring, collecting and evaluating the market data, including but not limited to the prevailing market and the then market price for comparable products in the related industry on a quarterly basis, which is subject to the preliminary investigation by the sales personnel and the final review by the sales manager. Under the circumstances such as the then market price for the comparable product increases or decreases by more than 20% as compared with the price of the specific product under the Distribution Framework Agreement as set by the Company, the sales department or pricing department of the Company will put forward the proposal of price adjustment, which is subject to the preliminary review by the deputy general manager of the Company in charge of sales and the final approval by the joint meeting held by production, sales, pricing, financial departments and other relevant departments of the Company;
- (d) the financial department of the Company is responsible to collect and total the transaction amount of the Group's continuing connected transactions on a monthly basis based on the respective transaction amount reported by the relevant departments, and is responsible to prepare the summary sheet of the Group's continuing connected transactions. Relevant 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 of the Company and discuss with the head of the financial department to determine whether to raise the annual caps of such continuing connected transactions, and such report shall be reported to the office of the securities affairs in the meantime. If the financial department confirms the necessity to raise the annual caps, the relevant departments shall propose the revised annual caps and reasons for adjustment approved by person in charge, and relevant approval and disclosure procedures shall be re-performed. Before completion of all the approval and disclosure procedures, the person in charge of relevant departments involved in the continuing connected transactions shall ensure that the transaction amount do not exceed the original annual caps;

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## LETTER FROM THE BOARD

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- (e) pursuant to the connected transaction management rules of the Company, the Company will implement, amend and improve the relevant rules and the requirements, and to specify that the subsidiaries of the Company comply with the above-mentioned pricing policies in respect of the continuing connected transactions contemplated under each of the renewed Distribution Framework Agreement;
- (f) the independent non-executive Directors have reviewed and will continue to review the continuing connected transactions under each of the renewed Distribution Framework Agreement to ensure all transactions contemplated thereunder are entered into on normal commercial terms or better, 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 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 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 (including the independent non-executive Directors) are of the view that such methods and procedures can ensure and safeguard that the transactions contemplated under the Distribution Framework Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders as a whole.

#### 4. MASTER PROCUREMENT AGREEMENT

##### **Major Terms of the Renewed Master Procurement Agreement**

Renewal Date: 29 September 2016

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 2017 to 31 December 2019.

During the term of the agreement, the Company has the right to terminate the agreement by giving six months' prior notice in writing to Tong Ren Tang Holdings.

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## LETTER FROM THE BOARD

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Principal Terms and  
Conditions:

Pursuant to the renewed Master Procurement Agreement:

- The Company agreed that it, or any of its subsidiaries 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 as non-exclusive supplier of the Group, any member of Tong Ren Tang Group may, from time to time, supply the Relevant Products to the Group.
- Details of the Relevant Products and quantities to be procured by the Group from Tong Ren Tang Group shall be determined by the parties according to market conditions and stated in individual implementation agreement.

Pricing Policy:

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

- the price shall be negotiated and agreed by the parties within the range of the then prevailing market price for the similar products, which shall be determined with reference to the prevailing market price of comparable service negotiated and provided by at least two independent suppliers in the same or surrounding areas;
- if there is no comparable market price available for the Relevant Products, the price shall be determined based on the integrated cost plus no more than 15% surcharge (the related cost shall be determined with reference to the cost of raw materials, labour cost and production expenses, etc.); and
- in any event, the price to be paid by the Group for the procurement of the Relevant Products shall not be higher than that available from independent third parties for similar product, or higher than the market price, whichever is the lower.



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## LETTER FROM THE BOARD

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**Payment of the Fees:** Payment arrangement will be negotiated by the parties and stated in individual implementation agreement, but shall be the same as the arrangement with other independent third parties. The payment of most products is made in cash or by acceptance bill between 90 to 120 days after the obtaining of goods' ownerships by the Company and the issuance of value-added tax invoice.

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

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

*Note:* Relevant Products means the raw materials, semi-finished products and finished products supplied by Tong Ren Tang Group to the Group under the renewed Master Procurement Agreement, collectively. The species procured by the Group from Tong Ren Tang Group under the Master Procurement Agreement are all outside the production scope of the Group. The products sold by the Group to the members of Tong Ren Tang Group under the Distribution Framework Agreement are all produced by the Group, and the scope of which is totally different from the Relevant Products under the Master Procurement Agreement.

### **Annual Caps**

#### ***Historical Transaction Amount***

Historical transaction amount under the Master Procurement Agreement for the two years ended 31 December 2015 and for the eight months ended 31 August 2016 is set out below:

	<b>Year ended</b>	<b>Year ended</b>	<b>Eight months</b>
	<b>31 December 2014</b>	<b>31 December 2015</b>	<b>ended</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<b>31 August 2016</b>
			<i>(RMB million)</i>
Historical Transaction			
Amount	84.125	110.355	79.710

After taking into account the following factors, the Company expects that the sales amount for the fourth quarter in 2016 under the Master Procurement Agreement will further increase:

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## LETTER FROM THE BOARD

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Firstly, the Group determines the production output based on the sales volume and determines the procurement amount based on the production output. As stated in the part of Distribution Framework Agreement in this circular, the sales amount of significantly increasing products, Product A series and Product B series represented an year-on-year increase over 40% in the first half of 2016, while Product C series, Product D series, Product E series, Product F series, and Product G series represented an year-on-year increase over 20% in the first half of 2016. The growth of these products will also increase the demand for raw materials. Meanwhile, the fourth quarter is the sales season for some of the Group's products series as compared with the second and third quarter, it is anticipated that customers' demands on nourishing products (such as Product B series, Product H series and etc.) will increase vigorously. Considering the cold weather and as the diseases like cardiovascular disease and cold occur frequently in the fourth quarter, consumers' demands on corresponding products (such as Product I series, Product J series and etc.) are also anticipated to increase vigorously. It is anticipated that the sales amount of Product H series, Product I series and Product J series will respectively increase more than 30%, and most of which will reflect in the fourth quarter. Meanwhile, the total sales amount of the above-mentioned ten products series in 2015 represented 40% to 50% of the Group's total sales revenue. Therefore, the procurement amount is expected to increase accordingly in the fourth quarter of 2016 so that to ensure the supply of such products.

Secondly, considering the continuing increasing procurement price and amount in recent years (according to KangMei Medicinal Material Price Index of China, the index for September 2016 increased by approximately 7% from the beginning of the year; and according to the data of Raw Material Composite 200 Index from the World Chinese Medicine Materials Website, the index for September 2016 increased by approximately 16% from the beginning of the year), the Group will continue to enhance the strategic reserve of certain raw materials of the Chinese Medicine in the fourth quarter in 2016 in order to ensure the sustained development of potential species of the Group and the Group's demand of certain scarce Chinese Medicine raw materials.

Besides, as the compound annual growth rate of Tong Ren Tang Chinese Medicine's sales amount was over 20% in the past three years, the amount procured by Tong Ren Tang Chinese Medicine from the Tong Ren Tang Group under the Master Procurement Agreement will also increase accordingly. In the meantime, more than 40 retail outlets with the brand of "Tong Ren Tang" were newly opened in the first half of 2016, closed to the number increased in last year. It is expected such increase will provide strong support for the Company's distribution business in the fourth quarter and lead to increase of procurement amount as well.

In the meantime, considering the increase of approximately 31.2% in terms of the historical transaction amount in 2015 comparing with that of 2014, the Company anticipates that the transaction amount will continue to grow in 2016.

The above reasons will lead to increase of purchase amount of the Group. Therefore, the Company anticipates that the actual transaction amount of 2016 will reach approximately RMB180 million and such transaction amount in the next three years under the Master Procurement Agreement are expected to maintain the increasing trend year by year.

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## LETTER FROM THE BOARD

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### *Historical Annual Caps*

The annual caps for the transactions contemplated under the Master Procurement Agreement for the three years ending 31 December 2016 are set out below:

	<b>Year ended 31 December 2014</b>	<b>Year ended 31 December 2015</b>	<b>Year ending 31 December 2016</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Historical Annual Caps	190	240	300

The Directors have been monitoring the transaction amount contemplated under the Master Procurement Agreement, and for the two years ended 31 December 2015, the annual caps for each year has not been exceeded. As at the Latest Practicable Date and for the year ending 31 December 2016, the annual cap for the transactions contemplated under the Master Procurement Agreement for the year ending 31 December 2016 has not been and is not expected to be exceeded.

### *Proposed Annual Caps*

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

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

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

- (i) the historical transaction amount for the two years ended 31 December 2015, the annual caps for three years ending 31 December 2016, and the significant increase in the growth rate of the Group's business in the past years. The actual transaction amount of the year ended 31 December 2015 under the Master Procurement Agreement increased substantially by approximately 31.2% comparing with that of 2014. For the eight months ended 31 August 2016, the actual transaction amount under the Master Procurement Agreement was RMB79.710 million, which has nearly reached to the amount of RMB84.125 million generated in the whole year of 2014, and also witnessed an increase as compared to the same period in the year of 2015 of RMB75.63 million. As stated above, affected by seasonal factors and other factors, the Company anticipates that the actual transaction amount of 2016 will continue to increase and reach approximately RMB180 million, and the actual transaction amount of the next three years under the Master Procurement Agreement will maintain the increasing trend year by year;

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## LETTER FROM THE BOARD

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- (ii). the Group's business growth in the past years. The compound annual growth rate of the Group's total sales revenue in the past five years was approximately 20%, and compound annual growth rate of the net profit was approximately 27%. Besides, the compound annual growth rate of the total procurement amount in the past three years increased by more than 50%; the compound annual growth rate of the main dosages' output increased by more than 5% in the past three years and the future output is expected to increase sustainably;
- (iii). the strategic reserve of certain raw materials of Chinese Medicine due to the Group's continuous development of potential species and the demand of certain scarce Chinese Medicine raw materials. Meanwhile, the market price of Chinese medicinal raw materials in recent years shows a continuously increasing trend. According to KangMei Medicinal Material Price Index of China, the index for September 2016 increased by approximately 7% from the beginning of the year; and according to the data of Raw Material Composite 200 Index from the World Chinese Medicine Materials Website, the index for September 2016 increased by approximately 16% from the beginning of the year, which will also lead to the increase in the transaction value of the Group's procurement of the Relevant Products from Tong Ren Tang Group;
- (iv). following with the gradual expand of the Group's scale, the increase of amount of subsidiaries under the Group (such as the acquisition of Beijing Tong Ren Tang Second Traditional Chinese Medicine Hospital Co., Ltd. (北京同仁堂第二中醫醫院有限責任公司) in 2016) will lead to increase in procurement volume. Meanwhile, considering the Group's strict selection of raw materials, the Chinese Medicine products produced by Tong Ren Tang Group will better meet the requirements of the Group, the amount of the Group's procurement of finished products from Tong Ren Tang Group will also increase accordingly;
- (v). it is expected that Tong Ren Tang Group will continue to expanding the scope and scale of production and business operation of Chinese Medicine products during the period of "Thirteen Five" Plan to ensure its long-term development. Meanwhile, the members of Tong Ren Tang Group may be increased due to any new investments of Tong Ren Tang Group in the next three years, which will inevitably result in the increase in the transaction amount between the Group and Tong Ren Tang Group under the renewed Master Procurement Agreement; and
- (vi). a buffer has been included for the estimated amount of procurement of the Relevant Products by the Group under the renewed Master Procurement Agreement for any unexpected increase in the aforesaid amount in the next three years.

### **Reasons for and benefit of renewal of the Master Procurement Agreement**

Tong Ren Tang Holdings owns a subsidiary that specialises in the Chinese medicinal raw materials, which provides variable Chinese medicinal raw materials with good quality. Meanwhile, some of its subsidiaries in China own its own production facilities for medicinal raw materials in local Chinese medicinal raw materials origins and have extensive experience in purchasing Chinese

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## LETTER FROM THE BOARD

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medicinal raw materials and a broad customer base. Since resources of suppliers 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 will secure the quality of raw materials procured by the Group, and ensure the stability of production and supply of the products of the Group. In addition, Tong Ren Tang Holdings also owns subsidiaries which are engaged in the production and sales of Chinese Medicine products. Therefore, the procurement of such products by the Group from Tong Ren Tang Group for further production or distribution by the Group is beneficial to the production and the development of the business of distribution of Chinese Medicine products of the Group.

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

### **Measures of Internal Control**

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

- (a) after entering into the renewed Master Procurement Agreement, the continuing connected transactions contemplated thereunder shall be strictly in compliance with the approved terms and conditions. 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 financial department of the Company is responsible to continuously monitor, collect and review the pricing terms, payment arrangements and actual transaction amounts of each of the specific implementation agreements relating to the renewed Master Procurement Agreement, and the relevant business department of the Company will also continue to monitor the aforesaid information so as to ensure all transactions under the renewed Master Procurement Agreement are entered into on normal commercial terms or better, 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 monitoring, collecting and evaluating the market data, including but not limited to the prevailing market and the then market price for comparable products in the related industry on a quarterly basis, which is subject to the preliminary investigation by the procurement personnel and the final review by the procurement manager. Under the circumstances such as the then market price for the comparable product increases or decreases by more than 20% as compared with the price of the specific product under the Distribution Framework

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## LETTER FROM THE BOARD

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Agreement or the Master Procurement Agreement as set by the Company, the procurement department or pricing department of the Company will put forward the proposal of price adjustment, which is subject to the preliminary review by the deputy general manager of the Company in charge of procurement and the final approval by the joint meeting held by production, procurement, 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 amounts of the Group's continuing connected transactions on a monthly basis based on the respective transaction amounts reported by the relevant departments, and is responsible to prepare the summary sheet of the Group's continuing connected transactions. Relevant 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 of the Company and discuss with the head of the financial department to determine whether to raise the annual caps of such continuing connected transactions, and such report shall be reported to the office of the securities affairs in the meantime. If the financial department confirms the necessity to raise the annual caps, the relevant departments shall propose the revised annual caps and reasons for adjustment approved by person in charge, and relevant approval and disclosure procedures shall be re-performed. Before completion of all the approval and disclosure procedures, the person in charge of relevant departments involved in the continuing connected transactions shall ensure that the transaction amounts do not exceed the original annual caps;
- (e) pursuant to the connected transaction management rules of the Company, the Company will implement, amend and improve the relevant rules and the requirements, and to specify that the subsidiaries of the Company comply with the above-mentioned pricing policies in respect of the continuing connected transactions contemplated under each of the renewed Master Procurement Agreement;
- (f) the independent non-executive Directors have reviewed and will continue to review the continuing connected transactions under each of the renewed Master Procurement Agreement to ensure all transactions contemplated thereunder are entered into on normal commercial terms or better, 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
- (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 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 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

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## LETTER FROM THE BOARD

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renewed Master Procurement Agreement, the Directors (including the independent non-executive Directors) are of the view that such methods and procedures can ensure and safeguard that the transactions contemplated under the Master Procurement Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders as a whole.

### 5. 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 contemplated under the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement exceed 5%, respectively, 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 the reporting, annual review and announcement requirements under Chapter 14A of the Hong Kong Listing Rules.

As Mr. Gao Zhen Kun, the chairman of the Board, is also a director of Tong Ren Tang Holdings, he is deemed to have material interest in the above-mentioned continuing connected transactions and has thus abstained from voting on the relevant resolutions at the Board meeting. Besides, none of the other Directors has a material interest in any of the above-mentioned continuing connected transactions.

### 6. 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, manufacture and sale of Chinese medicinal materials, Chinese patent medicine, Chinese medicinal decoction pieces, medical food, warehousing and transportation, etc..

### 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 appointment of Director, 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, is set out on pages 52 to 54 of this circular.

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## LETTER FROM THE BOARD

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Votes on the resolutions to be proposed at the EGM shall be taken by way of poll. In accordance with the Hong Kong Listing Rules, Tong Ren Tang Holdings and its associates will abstain from voting on the resolution to be proposed at the EGM in relation to the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement, as well as the proposed annual caps for the respective continuing connected transactions contemplated thereunder. As at the Latest Practicable Date, Tong Ren Tang Holdings and its associates, directly and indirectly, hold 609,480,000 Domestic Shares (representing approximately 47.59% of the issued share capital of the Company) with voting right.

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

If you intend to appoint a proxy to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time appointed for the holding of the EGM or any adjournment thereof, and deposit it with, (i) for holders of H Shares, Hong Kong Registrars Ltd., the H Share registrar and transfer office of the Company in Hong Kong, at 17M Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong; and (ii) for holders of Domestic Shares, the office of the Company, at No. 20, Nansanhuan Zhonglu, 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 Wednesday, 16 November 2016 to Friday, 16 December 2016 (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 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 15 November 2016.

### **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 (excluding the independent non-executive Directors) are of the view that the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement were entered into on normal commercial terms, and the terms and conditions therein as well as the proposed annual caps for the



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## LETTER FROM THE BOARD

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respective continuing connected transactions contemplated thereunder are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors (excluding the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

The Directors are of the view that the resolution in relation to the proposed appointment of the Director is in line with the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend the all Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

By order of the Board  
**Tong Ren Tang Technologies Co. Ltd.**  
**Gao Zhen Kun**  
*Chairman of the Board*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Tong Ren Tang Technologies Co. Ltd.

北京同仁堂科技發展股份有限公司

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

**(Stock code: 1666)**

31 October 2016

*To the Shareholders*

Dear Sir or Madam,

### **PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated on 31 October 2016 (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.

China Everbright 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 China Everbright Capital, together with the principal factors taken into consideration in arriving at such advice, are set out on pages 26 to 45 of the Circular.

Your attention is also drawn to the letter from the Board set out on pages 24 to 25 of the Circular and the additional information set out in the Appendix.

Having considered (i) the terms and conditions of the agreements 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

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Shareholders and the advice given by the Independent Financial Advisor and the principal factors and reasons taken into consideration by them in arriving at their advice, we are of the view that the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement were negotiated on an arm's length basis, were entered into in the ordinary and usual course of business of the Group, will be conducted on normal commercial terms, or on terms no less favorable than those available to or from independent third parties under prevailing local market conditions, and the terms and conditions as well as the proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned, and are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM so as to approve the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement, as well as the proposed annual caps for the respective continuing connected transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee of

**Tong Ren Tang Technologies Co. Ltd.**

**Tam Wai Chu, Maria      Ting Leung Huel, Stephen      Jin Shi Yuan**  
*Independent Non-executive Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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*The following is the full text of a letter of advice from China Everbright Capital Limited to the Independent Board Committee and the Independent Shareholders in relation to the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement prepared for the purpose of inclusion in this circular.*



31 October 2016

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

Dear Sirs,

### RENEWAL OF CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our engagement as the independent financial adviser to the independent board committee (the “**Independent Board Committee**”) and the independent shareholders (“**Independent Shareholders**”) in relation to the renewed distribution framework agreement and the renewed master procurement agreement (collectively, “**Framework Agreements**”), details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in this circular (the “**Circular**”) dated 31 October 2016 issued by the Company, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Tong Ren Tang Holdings is the ultimate controlling shareholder of the Company and is therefore a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the Framework Agreements constitute continuing connected transactions (“**Continuing Connected Transactions**”) of the Company under Chapter 14A of the Hong Kong Listing Rules. As the applicable percentage ratio(s) with respect to the proposed annual caps for the three years ending 31 December 2019 (“**Proposed Annual Caps**”) for each of the Framework Agreements are more than 5%, the transactions contemplated thereunder will be subject to reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The Independent Board Committee, comprising all of the three independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Framework Agreements, and the Proposed Annual Caps, and to make recommendations to the Independent Shareholders in respect thereof. We, China Everbright Capital Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

During the past two years, Mr. Alvin Kam, for and on behalf of China Everbright Capital Limited, signed the opinion letter from the independent financial adviser contained in the Company’s circular dated 15 April 2015 in respect of the revision of the 2015 and 2016 annual caps for the continuing connected

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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transactions contemplated under the distribution framework agreement. The past engagement was limited to providing independent advisory services to the Independent Board Committee and the Independent Shareholders pursuant to the Hong Kong Listing Rules. Apart from normal professional fees for our services to the Company in connection with the engagement described above, no arrangement exists whereby we will receive any fees and benefits from the Group, Tong Ren Tang Holdings or any of their respective associates. As of the Latest Practicable Date, we are independent from and not connected with the Group, Tong Ren Tang Holdings or any of their respective substantial shareholders, directors or chief executives, or any of their respective associates pursuant to Rule 13.84 of the Hong Kong Listing Rules, and are accordingly qualified to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the Continuing Connected Transactions.

### **BASIS OF OUR OPINION**

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the management (“**Management**”) of the Company and have assumed that such information, facts and opinions are true and accurate. We have also sought and received confirmation from the Management that no material facts have been omitted from the information supplied and opinions expressed to us. However, we have not conducted any independent investigation into the business, operations or financial condition of the Group. We have assumed that all statements and representations made or referred to in the Circular were accurate at the time when they were made and are true at the date of the Circular.

We consider we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation.

### **PRINCIPAL FACTORS AND REASONS TAKEN INTO ACCOUNT**

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

#### **(A) Background of and reasons for the Continuing Connected Transactions**

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

Tong Ren Tang Holdings is engaged in the processing, manufacture and sale of Chinese medicinal materials, Chinese patent medicine, Chinese medicinal decoction pieces, medical food, warehousing and transportation, etc. As stated in the Letter from the Board, Tong Ren Tang Group has a sales network providing a wide coverage. In addition, Tong Ren Tang Holdings owns a subsidiary that specializes in the Chinese medicinal raw materials, which provides variable Chinese medicinal raw materials with good quality. Meanwhile, some of its subsidiaries in China has its own production facilities for Chinese medicinal raw materials in local medicinal materials origins and have extensive experience in purchasing Chinese medicinal raw materials and a broad customer base.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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To facilitate its business development and operation, the Company entered into the distribution framework agreement (“**Distribution Framework Agreement**”) with Tong Ren Tang Holdings on 15 April 2008, which was renewed twice by the parties on 18 January 2011 and 10 October 2013 each time for a term of three years, pursuant to which the Company agreed to sell its products to Tong Ren Tang Group, and Tong Ren Tang Holdings agreed to purchase products from the Group and then distribute the same to retailers and/or end-users.

In addition, the Company also entered into the master procurement agreement (“**Master Procurement Agreement**”) with Tong Ren Tang Holdings on 28 February 2011, which was renewed by the parties on 10 October 2013 for a term of three years, pursuant to which the Group agreed to procure from Tong Ren Tang Group, and Tong Ren Tang Group agreed to supply to the Group, raw materials, semi-finished products and finished products for the Group’s production, sale and distribution.

The existing term of the Distribution Framework Agreement and the Master Procurement Agreement will expire on 31 December 2016. Since the Continuing Connected Transactions shall continue, the Directors propose to seek Independent Shareholders’ approval to renew the Framework Agreements and the Continuing Connected Transactions to be contemplated thereunder for a term commencing from 1 January 2017 to 31 December 2019 in order to comply with the continuing connected transaction requirements under the Hong Kong Listing Rules.

As stated in the Letter from the Board, the Directors consider that through the renewed distribution framework agreement (“**Renewed Distribution Framework Agreement**”), the utilization of the sales network of Tong Ren Tang Group to distribute the products of the Group will give full play to the advantage of the resources owned by Tong Ren Tang Group and expand the market share of the Group, hence is beneficial to the development of the business of the Group.

Through the renewed master procurement agreement (“**Renewed Master Procurement Agreement**”), Tong Ren Tang Group can supply raw materials, semi-finished products and finished products for the Group’s production, sale and distribution. As stated in the Letter from the Board, since resources of suppliers 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 will secure the quality of raw materials procured by the Group, and ensure the stability of production and supply of the products of the Group. In addition, Tong Ren Tang Holdings also has subsidiaries which are engaged in the production and sales of Chinese medicine products. Therefore, the procurement of such products by the Group from Tong Ren Tang Group for further production or distribution by the Group is beneficial to the production and the development of the business of distribution of Chinese medicine products of the Group.

Having taken into account of the above and:

1. the Group has established and maintained long-term business relationship with Tong Ren Tang Group;
2. the recurring nature of the transactions under the Framework Agreements and the entering into of the Framework Agreements will enable the Company to continue its business with Tong Ren Tang Group;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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3. the Continuing Connected Transactions are in line with the existing business activities of the Group;
4. the extensive sales network of Tong Ren Tang Group in the PRC will enable the Group to further expand its market share and strengthen its presence in the market;
5. through the Framework Agreements, the Group can secure stable supply of Chinese medicinal raw materials from Tong Ren Tang Group, and ensure the stability of production and supply of the products of the Group; and
6. the transactions contemplated under the Framework Agreements shall be conducted on an arm's length basis and on terms that are fair and reasonable to the Company.

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

### **(B) The Major Terms of the Framework Agreements**

#### *The Renewed Distribution Framework Agreement*

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

Based on the terms and conditions of the Renewed Distribution Framework Agreement, the parties will enter into individual implementation agreement to set out, inter alia, the selling price, quantity and specifications of products for each sale transaction in accordance with prevailing market conditions. As stated in the Letter from the Board, the selling prices of the products supplied by the Group to Tong Ren Tang Group shall not be lower than that charged by the Group to other independent third parties and shall be determined in accordance with a reasonable cost plus a fair and reasonable profit margin, with references to:

- the cost of raw materials, the cost of labor and the manufacturing expenses etc.; and
- the prevailing market and the then market price for comparable products in the related industry, and the average gross profit rate of the Group's products of the Group in the previous years of not exceeding 50% (the average gross profit rate of the majority of products was between 30% to 50%).

Payment arrangement will be negotiated by the parties and stated in individual implementation agreement, but shall be the same as the arrangement with other independent third parties. The payment shall be settled in cash or by acceptance bill, and the account period is usually between 30 days and 120 days.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### *The Renewed Master Procurement Agreement*

Pursuant to the Renewed Master Procurement Agreement and subject to the Proposed Annual Caps, the Company agreed that it, or any of its subsidiaries may, from time to time, procure the raw materials, semi-finished products and finished products from members of Tong Ren Tang Group for the purpose of its production, sale and distribution. Tong Ren Tang Holdings agreed that as non-exclusive supplier of the Group, any member of Tong Ren Tang Group may, from time to time, supply the raw materials, semi-finished products and finished products to the Group.

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

As stated in the Letter from the Board, the price to be paid for Chinese medicinal raw materials, semi-finished products and finished products procured by the Group from the Tong Ren Tang Group shall be determined in accordance with the following principles:

- the price shall be negotiated and agreed by the parties within the range of the then prevailing market price for the similar products, which shall be determined with reference to the prevailing market price of comparable service negotiated and provided by at least two independent suppliers in the same or surrounding areas;
- if there is no comparable market price available for the relevant products, the price shall be determined based on the integrated cost plus no more than 15% surcharge (the related cost shall be determined with reference to the cost of raw materials, labor cost and production expenses, etc.); and
- in any event, the price to be paid by the Group for the procurement of the relevant products shall not be higher than that available from independent third parties for similar product, or higher than the market price, whichever is the lower.

Payment arrangement will be negotiated by the parties and stated in individual implementation agreement, but shall be the same as the arrangement with other independent third parties. The payment of most products is made in cash or by acceptance bill between 90 to 120 days after the obtaining of goods' ownerships by the Company and the issuance of value-added tax invoice.

### *Our views on the major terms of the Framework Agreements:*

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



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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We have reviewed a total of five sets of copies of implementation agreements for both sale and procurement contracts between the Group and both (i) independent third parties; and (ii) Tong Ren Tang Group, covering the year ended 31 December 2015 and eight months ended 31 August 2016. Given the significant number of sales and procurement transactions throughout the year, we selected the samples from one of the popular product series and the major Chinese medicinal raw materials. On the sample sales contracts and purchase contracts obtained, we have checked to (i) unit price; (ii) payment terms; and (iii) delivery method, noting the same terms were given to/offered by the independent third parties and the Tong Ren Tang Group. Therefore, we considered that the pricing terms and payment terms of the Group's products supplied to or procured from Tong Ren Tang Group were no less favorable than that charged to independent third parties and on terms no less favorable than those the Group can obtain from independent third parties.

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

### **(C) Internal Control Measures**

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

- (i) after entering into the Framework Agreements, the Continuing Connected Transactions shall be strictly in compliance with the approved terms and conditions. Implementation agreements under the Framework Agreements shall be performed in strict accordance with pricing policies set out in the Framework Agreements. If revision of such terms and conditions is required due to change of actual situation, it is required to re-perform appropriate approval process;
- (ii) the financial department of the Company is responsible to continuously monitor, collect and review the pricing terms, payment arrangements and actual transaction amounts of each of the specific implementation agreements to the Framework Agreements and the relevant business department of the Company also continue to monitor the aforesaid information so as to ensure all transactions under the Framework Agreements are entered into on normal commercial terms or better, 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 Framework Agreements;
- (iii) with the relatively stable price of the majority of the Chinese patent medicine products under the Framework Agreements, the sales department and procurement department of the Company are responsible for monitoring, collecting and evaluating the market data, including but not limited to the prevailing market and the then market price for comparable products in the related industry on a quarterly basis, which is subject to the preliminary investigation by the sales and procurement personnel and the final review by the sales and procurement manager. Under the circumstances such as the then market price for the comparable product increases or decreases by more than 20% as compared with the price of the specific product under the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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Framework Agreements as set by the Company, the sales department, procurement department, or pricing department of the Company will put forward the proposal of price adjustment, which is subject to the preliminary review by the deputy general manager of the Company in charge of sales department or procurement department and the final approval by the joint meeting held by production, sales/procurement, pricing, financial departments and other relevant departments of the Company;

- (iv) the financial department of the Company is responsible to collect the total transaction amounts of the Continuing Connected Transactions on a monthly basis based on the respective transaction amounts reported by relevant departments, and responsible to prepare the summary sheet of the Continuing Connected Transactions. Relevant 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 of the Company to determine whether to raise the annual caps of such Continuing Connected Transactions, and such report shall be reported to the office of the securities affairs in the meantime. If the financial department confirms the necessity to raise the annual caps, the relevant departments shall propose the revised annual caps and reasons for adjustment approved by person in charge, and relevant approval and disclosure procedures shall be re-performed. Before completion of all of the approval and disclosure procedures, the person in charge of relevant departments involved in the Continuing Connected Transactions shall ensure that the transaction amounts do not exceed the respective annual caps;
- (v) pursuant to the connected transaction management rules of the Company, the Company will implement, amend and improve the relevant rules and the requirements, and to specify that the subsidiaries of the Company comply with the above-mentioned pricing policies in respect of the Continuing Connected Transactions contemplated under the Framework Agreements;
- (vi) the independent non-executive Directors have reviewed and will continue to review the Continuing Connected Transactions to ensure all transactions under the Framework Agreements to ensure all transactions contemplated thereunder are entered into on normal commercial terms or better, 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 Framework Agreements; and
- (vii) the auditors of the Company will also conduct an annual review on the pricing and annual caps of the Continuing Connected Transactions under the Framework Agreements.

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### (D) The Proposed Annual Caps

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

Sets out below the existing annual caps for the three years ending 31 December 2016 ("**Existing Annual Caps**") and the Proposed Annual Caps for the three years ending 31 December 2019:

	Existing Annual Caps			Proposed Annual Caps		
	Year ended 31 December			Year ending 31 December		
	2014	2015	2016	2017	2018	2019
	RMB	RMB	RMB	RMB	RMB	RMB
	(Million)	(Million)	(Million)	(Million)	(Million)	(Million)
Distribution Framework Agreement	470	910	1,300	1,300	1,550	1,850
Master Procurement Agreement	190	240	300	240	270	300

#### *The Distribution Framework Agreement*

The proposed annual cap for the year ending 31 December 2017 is the same for the year ending 31 December 2016 at RMB1,300 million. The proposed annual caps for the two years ending 31 December 2019 represent approximately 19% increase for each of the year from the preceding year.

#### *The Master Procurement Agreement*

The proposed annual cap for the year ending 31 December 2017 represents a 20% decrease from the existing annual cap for the year ending 31 December 2016. The proposed annual caps for the two years ending 31 December 2019 represent approximately 13% and 11% increase, respectively, from that in the previous year.

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

#### (I) *The Renewed Distribution Framework Agreement*

1. the historical transaction amounts for the year ended 31 December 2015 and the eight months ended 31 August 2016 demonstrated a continuous increasing trend. As a result of seasonal factors and other factors, the Company anticipated that the actual transaction amount for the year ending 31 December 2016 will continue to increase and the utilization rate of annual cap will be line with that of 2015, reaching approximately 75%, and the actual transaction amount in the next three years under the Renewed Distribution Framework Agreement will also maintain the increasing trend year by year;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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2. the revenue of the Group shows a trend of sustained growth with 20% CAGR of the Group's overall revenue and 27% CAGR of the Group's net profit in the past five years. In the future, the Company will continue to take modernize traditional Chinese medicine as its core business and strive to meet the demand for different types of medicine products so as to enhance the Company's market competitive advantage. In the meantime, the Company will facilitate its subsidiaries to constantly develop in-depth in cosmetics, food and other fields and expand the product areas and product types;
3. the expected expansion of the sales network with the brand of "Tong Ren Tang" operated by Tong Ren Tang Group. The members of Tong Ren Tang Group may also increase due to any potential investments in establishing new entities in the next three years;
4. Chinese medicine is attracting more and more attention from consumers because of its natural origin, low side effects and relatively economic advantages as compared with those chemical drugs such as western medicine. In recent years, China has introduced a series of policies to support Chinese medicine, which has created a favorable policy environment for the development of the Group. In May 2015, the Circular on Printing and Distributing the Opinions on Promoting the Reform of Drug Prices was issued, proposing to abolish the original government-determined drug prices with effect from 1 June 2015. With further liberalization of price determination of pharmaceuticals, it may lead to the adjustment of the drug prices of the Company;
5. Tong Ren Tang Chinese Medicine will continue to distribute certain of its own products through the sales network of Tong Ren Tang Group and such network is expected to continue to expand over the next few years and Tong Ren Tang Group's demand of self-owned products of Tong Ren Tang Chinese Medicine will also continue to grow; and
6. a buffer has been included for any unexpected increase in the aforesaid amount in the next three years.

### **(II) *The Renewed Master Procurement Agreement***

1. the historical transaction amounts for the years ended 31 December 2015 and the eight months ended 31 August 2016 demonstrated a continuous increasing trend. As a result of seasonal and other factors, the Company anticipated that the procurement amount for the year ending 31 December 2016 will continue to increase and reach approximately RMB180 million, representing a utilization rate of 60%, and that the transaction amount for the year ending 31 December 2016 and for the next three years under the Renewed Master Procurement will maintain the increasing trend year by year;
2. the revenue of the Group shows a trend of sustained growth with 20% CAGR of the Group's overall revenue and 27% CAGR of the Group's net profit in the past five years. Besides, the CAGR of the total procurement amount in the past three years was more than 50% and the CAGR of the output of the main dosage forms of products in the past three years was more than 5% and the revenue is expected to increase sustainably;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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3. the market prices of Chinese medicinal raw materials shows a continuously increasing trend;
4. the gradual expansion of the Group's scale with the increase in the number of subsidiaries of the Group (such as the acquisition of Beijing Tong Ren Tang Second Traditional Chinese Medicine Hospital Co., Ltd. (the "**Chinese Medicine Hospital**");
5. the expected expansion of scope and scale of production and business operation of Chinese medicinal products during the period covered by the 13th Five Year Plan of China (the "**13th Five Year Plan**") and the members of Tong Ren Tang Group may also increase due to any potential investments in establishing new entities in the next three years; and
6. a buffer has been included for any unexpected increase in the aforesaid amount in the next three years.

In assessing whether the Proposed Annual Caps are fair and reasonable, we have taken into consideration of the following:

***Review of the Group's historical figures and historical transaction amounts between the Group and Tong Ren Tang Group***

The tables below set out (i) the historical transaction amounts of the Continuing Connected Transactions for each of the two years ended 31 December 2015 and the eight months ended 31 August 2016 ("**Track Record Period**") and (ii) the Existing Annual Caps for the three years ending 31 December 2016:

*The Renewed Distribution Framework Agreement*

	<b>Year ended 31 December</b>		<b>Eight months ended</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>
Historical Transaction	436.37	700.88	415.83	508.51
Existing Annual Caps	470	910	910	1,300
Utilization rate (%)	92.8	77.0	68.5 <sup>(1)</sup>	58.7 <sup>(1)</sup>

*Note:*

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

The historical transaction amounts demonstrated a continuous growing trend with a substantial increase of approximately 61% for the year ended 31 December 2015 from same period in 2014 and a moderate increase of approximately 22% for eight months ended 31 August 2016. The utilization, on

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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the other hand, showed a decreasing trend after the annual caps for the years ended 31 December 2015 and 2016 were revised and increased in 2015 to foster the significant growth in demand of the Group's products. The lower utilization rate for the eight months ended 31 August 2016 was due to the overall slowdown of GDP growth in the PRC and the reformation of the medical and health system.

However, as stated in the Letter from the Board, the Company anticipated that the utilization rate of annual cap under the Distribution Framework Agreement for the year ending 31 December 2016 will be in line with that for 2015, reaching approximately 75% because the sales amount for the fourth quarter under the Distribution Framework Agreement is expected to further increase for the following reasons briefly extracted from the Letter from the Board:

- (i) continuous growth in the scale and portfolio of the products in the fourth quarter together with the growth of retail shops among the Tong Ren Tang sales network further increases demands for the Group's products. Comparing with 2015, 42 kinds of products achieved a sales amount of more than RMB5 million in the first half of 2016, comparing with that of 39 kinds in the same period of 2015. During the six months ended 30 June 2016, more than 40 new retail outlets with the brand "Tong Ren Tang" were newly opened, which is close to the number increased for the year ended 31 December 2015;
- (ii) demands on nourishing products will be anticipated to increase vigorously because autumn and winter is generally a good time for consumers to take a tonic; and
- (iii) the cold weather plus diseases like cardiovascular disease and cold occur frequently in the fourth quarter, consumers' demands on corresponding products.

We have reviewed the quarterly revenue under the Distribution Framework Agreement for the year ended 31 December 2014 and 2015, noting that the revenue amount is generally higher in the fourth quarter with approximately 30% of the total annual revenue. The proportion of revenue in the fourth quarter to the total revenue also showed an increasing trend when comparing the proportion in 2015 with that in 2014. By applying the same pattern, the revenue alone under the Distribution Framework Agreement for the year ending 31 December 2016 is roughly calculated to be approximately 63% of the existing annual cap based on the revenue of the nine months figure calculated on pro-rata basis and the approximate 30% proportion of the fourth quarter revenue to the total revenue aforementioned for 2014 and 2015. We further obtained samples of sales information of several nourishing products and Chinese medicinal products for curing flu and cardiovascular diseases, noting that the sales of these products are generally higher in the fourth quarter for both 2014 and 2015.

We further reviewed the Group's 2015 and 2016 Interim Report, noting that the number of products with a total revenue of more than RMB5 million increased from 42 in the first half of 2016 from 39 in the same period of 2015. We calculated that the 40 more newly opened retail outlets with the brand "Tong Ren Tang" already represented more than 80% of the total number of retail outlets increased for the year ended 31 December 2015. Therefore, the growth in scale and portfolio and the even faster growth rate of retail shops in the first half of 2016 provided further support for the

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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revenue under the Distribution Framework Agreement in the forth quarter. Therefore, we are of the view that the Company's anticipation of a utilisation rate of 75% for the year ending 31 December 2016 is fair and reasonable.

After considering (i) the lower utilization rate in 2015 and the eight months ended 31 August 2016; (ii) the expected utilization rate for the year ending 31 December 2016 to around 75%; and (iii) the historical period on period growth of no less than 22%, the Management did not increase the annual cap for the year ending 31 December 2017. The year on year increase of 19% for annual caps for the year ending 31 December 2018 and 2019 is also below (i) the historical period on period /year on year growth rate of revenue under the Distribution Framework Agreement of no less than 22%; and (ii) the 20.5% CAGR of the Group's revenue.

Furthermore, we set forth below the historical revenue under the Distribution Framework Agreement and the revenue of the Group for the year ended 31 December 2013, 2014 and 2015:

	Year ended 31 December		
	2013	2014	2015
Revenue under the Distribution Framework Agreement ( <i>RMB'million</i> )	350.22	436.37	700.88
Revenue ( <i>RMB'million</i> )	2,911	3,341	3,987
% of revenue under the Distribution Framework Agreement to the revenue of the Group (%)	12.0	13.1	17.6

As demonstrated above, the proportion of revenue under the Distribution Framework Agreement to the Group's total revenue for the three years ended 31 December 2013, 2014 and 2015 are all below 20%. The higher proportion of 17.6% in 2015 was due to the revision of annual caps in 2015 as a result of distribution model for certain products of the Group. As stated in the Letter from the Board, the Group will continue to expand its domestic sales channels and will continue to strengthen cooperation with other distributors while enhancing the cooperation with Tong Ren Tang Group. The anticipated portion that the actual transaction amount represents in the Group's future revenue under the Distribution Framework Agreement will not increase significantly in the future. The Company is of the view that it does not have a material reliance on Tong Ren Tang Group.

We concur with the Company that it does not have a material reliance on Tong Ren Tang Group after considering the following factors in addition to the aforementioned:

- i. the Distribution Framework Agreement were mutually beneficial to Tong Ren Tang Group and the Group, which maximizes the overall "Tong Ren Tang" brand effect;
- ii. the transactions contemplated under Distribution Framework Agreement were entered into on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole and were, therefore, approved by the then shareholders;

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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- iii. internal controls are in place to ensure the transactions contemplated under the Renewed Distribution Framework Agreement will be entered into on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- iv. the Group has been expanding the sales with both the Tong Ren Tang Group and independent customers. We have reviewed the Annual Report in the past five years, noting that the revenue from external independent customers has also recorded a CAGR of approximately 20%, which demonstrated the Group's efforts in expanding sales with external independent customers; and
- v. the Group recorded strong profitability in the past five years with an increasing trend and a CAGR of 27.4%, the exclusion of the transactions under the Distribution Framework Agreement will not affect the Group's overall profitable position.

### *The Renewed Master Procurement Agreement*

	<b>Year ended 31 December</b>		<b>Eight months ended</b>	
			<b>31 August</b>	
	<b>2014</b>	<b>2015</b>	<b>2015</b>	<b>2016</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>
Historical Transaction	84.13	110.36	75.63	79.71
Annual Cap	190	240	240	300
Utilization rate (%)	44.3	46.0	47.3 <sup>(1)</sup>	39.9 <sup>(1)</sup>

*Note:*

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

The historical transaction amount demonstrated a continuous growing trend with moderate increase of approximately 31% in the transaction amount for the year ended 31 December 2015 and mild increase of approximately 5% for the eight months ended 31 August 2016. The utilization rates were under 50% during the Track Record Period.

However, as stated in the Letter from the Board, the Company anticipated that procurement amount under the Master Procurement Agreement for the year ending 31 December 2016 will reach RMB180 million, representing a utilization rate of approximately 60%. The increase in procurement amount was due to the following reasons:

- (i) the procurement amount is determined by the production output, which was in turn determined based on the expected sales volume;
- (ii) the higher production output in the forth quarter to ensure supply of products to meet the expected higher sales volume in the forth quarter and next year;



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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- (iii) considering the continuing increasing procurement price and amount in recent years as supported by the indexes set out in the section sub-headed “Increasing prices of Chinese medicinal raw material” below, the Group would enhance the strategic reserve of certain Chinese medicinal raw materials in the forth quarter of 2016 to ensure sustained development; and
- (iv) the fast expansion of retail outlets of Tong Ren Tang Group in the first half of 2016, which already represented more than 80% of the total numbers of retail outlets increased for the year ended 31 December 2015. It is expected that such increase will provide strong support for the Company’s distribution business in the fourth quarter and lead to increase of procurement amount as well.

As set out above, the revenue is expected to increase in the forth quarter of 2016. We have also conducted research on the increasing trend of the prices of the Chinese medicinal raw materials set out in the sub-section headed “Increasing prices of Chinese medicinal raw material”. We further understood from the Management that given the increasing trend in the prices of raw materials, the Group tends to strategically stock up more raw materials as reserve now while they are at relatively lower prices. We have further reviewed the Group’s 2015 Annual Report, noting that it is common for the Group to stock up raw materials as reserve. As at 31 December 2014 and 2015, the Group has more than RMB600 million raw materials in its inventories. Based on our independent works completed, we have no reasonable doubt against the Group’s anticipation of procurement amount reaching RMB180 million for the year ending 31 December 2016.

After considering (i) consistently low utilization rate; (ii) the anticipation of procurement amount reaching RMB180 million for the year ending 31 December 2016, representing a utilisation rate of 60%; (iii) expected higher sales volume in the forth quarter; (iv) the increasing prices of Chinese medicinal raw materials; and (v) the historical annual/periodic growth rate between 5% to 31%, the Management decreased the proposed annual cap for the year ending 31 December 2017 by 20% from that for the year ending 31 December 2016. The 13% and 11% year on year growth of the proposed annual caps for the year ending 31 December 2017 and 2018 were within (i) the range of historical annual growth rate of 31% for the year ended 31 December 2015 and the periodic growth rate of 5% for the eight months ended 31 August 2016; and (ii) the 20.4% of the CAGR of the Group’s revenue.

We further set forth the historical amount of the Group’s overall revenue and net profit for the five years ended 31 December 2015:

<b>RMB</b> <i>(million)</i>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>CAGR</b> <i>(%)</i>
Revenue	1,900	2,439	2,911	3,341	3,987	20.4
Net profit	281	400	503	616	742	27.5

Benefited from the Group’s sales strategy and sales channels, the Group continued to achieve steady growth in the past five years with 20.4% CAGR for revenue and 27.5% CAGR for net profit. According to the 2015 Annual Report of the Company and 2016 Interim Report of the Company, we

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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noted the Group has implemented the marketing ideas of “one policy for one product” and continued to treat the satisfaction of customers’ needs as pivot point. According to the 2015 Annual Report, the scale of the Group’s product portfolio was further enlarged. The Group has produced and sold more than four hundred kinds of products in total, among which eight kinds of products achieved a sales amount of more than RMB100 million; twenty-five kinds of products achieved a sales amount of in the range from RMB10 million to RMB100 million; nineteen kinds of products achieved a sales amount in the range from RMB5 million to RMB10 million.

As stated in the Letter from the Board, the output of the main dosage forms of the Group’s products in the past three years experienced a CAGR of 5%. Below set forth the table of the production volume of the main dosage forms of the Group’s products for the three years ended 31 December 2015 extracted from the Summary of Prospectus for the Issue of Corporate Bonds (公司債券(第一期)募集說明書摘要) dated 28 July 2016:

Thousand boxes	For the years ended 31 December			CAGR %
	2013	2014	2015	
Pills (丸劑)	80,752	94,244	95,261	8.6
Capsules (膠劑)	1,069	1,972	3,246	74.3
Tablets (片劑)	17,337	16,205	21,141	10.4
Granules (顆粒劑)	27,393	25,221	20,963	(12.5)
Liquids (口服液)	<u>8,400</u>	<u>7,570</u>	<u>9,303</u>	5.2
Total	<u><u>134,951</u></u>	<u><u>145,212</u></u>	<u><u>149,914</u></u>	5.4

As show above, the overall production volume of the Group’s products also demonstrated an increasing trend by a CAGR of 5%. All forms of products except for granules showed a corresponding increase. As new production capacity will be further improved and upgraded together with the increasing demand explained in the section below, the production of the Group’s product is expected to increase accordingly.

***Increasing demand of the Group products from the expansion of distribution network with the brand of “Tong Ren Tang” of Tong Ren Tang Group***

As stated in the Letter from the Board, as at 31 December 2015, the number of retail outlets with the brand of “Tong Ren Tang” has exceeded 500 while as at 31 December 2014, there were about 450 retail outlets, representing an increase of over 10%. As discussed with the Management, the growth of the sales network of “Tong Ren Tang” continues and by 30 June 2016, more than 540 retail shops have been opened, already representing a growth of 8% from that as at 31 December

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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2015. It was also stated in the Letter from the Board that the members of Tong Ren Tang Group may increase due to potential investments in establishing new entities in the next three years, which will further increase the transaction amount under the Distribution Framework Agreement. Having considered the year of 2016 is the beginning of the 13th Five Year Plan in which healthcare remains one of the focus areas with increased spending, we are of the view there would be increased opportunities for expansion.

Meanwhile, as discussed in the Letter from the Board, the Group will continue to distribute its products through the sales network with the brand of “Tong Ren Tang” in Tong Ren Tang Holdings. As discussed in the 2015 Annual Report, the Group would use the “Tong Ren Tang” brand and its products as the focal points to establish accurate positioning and continue to implement scientific and highly effective strategies for market operation and marketing, which will help to consolidate the sale share of major products and broaden the salable markets for the Group’s key nurtured products. We further understood from the Management that by tapping on retail outlets within Tong Ren Tang Group under the “Tong Ren Tang” brand allows the Group to maximize the brand effect by making full advantage of fellow sales channels to increase market awareness of the Group’s products. The strategy on leveraging on the “Tong Ren Tang” brand has proved to be successful by sustained growth of the Group’s revenue and the historical transactions between the Group and Tong Ren Tang Group. Therefore, we concur with the Management the continuous expansion of the sales network of Tong Ren Tang Group will boost both the sales transactions and purchase transactions with Tong Ren Tang Group under the Framework Agreements.

### ***Increasing demand of the Group’s product from the continuing development of the business of the Group***

As demonstrated in the above section headed “Review of the Group’s historical figures and historical transaction amounts between the Group and Tong Ren Tang Group”, and as stated in the Letter from the Board, the revenue and profitability of the Group both shows a trend of sustained growth. As stated in the Letter from the Board, the Company will continue to take modernize traditional Chinese medicine as its core business, vigorously cultivate potential varieties, further optimize the structure of Chinese patent medicine products, and strive to meet the demand for different types of medicine products. With the increasing disposable income in China, consumers show rising health awareness. According to a survey conducted by a global market research firm, The Nielsen Company, and its Chinese Consumer Confidence Index, health had overtaken income to be the top concern of Chinese urban consumers. It also found that Chinese consumers believe the top desirable attributes in food are “fresh”, “natural” and “minimally processed” and that they are willing to pay premium for healthy food. Therefore, Chinese medicine has been attracting more attention from consumers because of its natural origin, low side effects and relatively economic advantages as compared with the chemical drugs of western medicine. The growing health awareness is expected to breed more market opportunities for Chinese medicine and health products.

In addition to the traditional Chinese medicinal products, based on our review of the 2016 Interim Report and the 2015 Annual Report, we also noted that, while the Group focuses on continuous and stable growth of Chinese patent medicine, it is also stepping up development of health products business. As stated in the Letter from the Board, the Company will facilitate its subsidiaries to constantly develop in-depth in cosmetics, food and other fields and expand the product areas and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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product types. We are of the view that the organic growth of the Group's Chinese medicinal products and development of these new types of products would further deepened the demand of both the Group's products and Chinese medicinal raw materials from Tong Ren Tang Group.

In March 2016, the Group acquired Beijing Tong Ren Tang Second Traditional Chinese Medicine Hospital Co., Ltd. (the "**Chinese Medicine Hospital**") from Tong Ren Tang Holdings. The acquisition of the Chinese Medicine Hospital may increase the demand of both Chinese medicinal raw materials and Chinese patent medicine, thereby increasing the procurement volume from Tong Ren Tang Group.

In the 2016 Interim Report, further production facility, such as Da Xin Production Base, the construction of which is expected to complete next year and would come into operation in the near future, which will increase the R&D capability and the production capacity of the Group. The increased production capacity is expected to support and take on the growth potential from the Group's products.

### *Increasing prices of Chinese medicinal raw material*

As stated in the Letter from the Board, the resources of suppliers of several Chinese medicinal raw materials are limited and the market prices of Chinese medicinal raw materials are continuously on the rise in recent years. According to KangMei Medicinal Material Price Index of China (康美中國中藥材價格指數) extracted from cnkmprice.kmzyw.com.cn, the index for September 2016 increased by 7% since the beginning of the year; and according to the date of Raw Material Composite 200 Index from the World Chinese Medicine Materials Website (中藥材天地網原材料綜合指數200) extracted from www.zyctd.com, the index for September 2016 increased by 16% since the beginning of the year, both showing increasing trend of the prices in the Chinese medicinal raw materials. We have selected and obtained several samples of the common Chinese medicinal raw materials used in the production of the Group's products and noted their price index on World Chinese Medicine Materials Website demonstrated a growth trend of 10% to 35%, which are in line with the trend of the two indexes above. Therefore, the rising price of Chinese medicinal raw material is expected to increase the transaction amount under the Renewed Master Procurement Agreement.

### *The growth of the healthcare industry in the PRC*

The Chinese government continued to attach great importance to and remained supportive to the Chinese medicine industry, which has brought about new opportunities for development in the industry. Healthcare and pharmaceutical industry remains one of the focus areas of the 13th Five-Year Plan. There will be strategical planning in the promotion of "Healthy China" (健康中國) under the Plan, include improving the healthcare system, as well as increasing the public health awareness and encourage the promotion of Chinese medicines. National Health and Family Planning Commission (the former Ministry of Health) released a blueprint "Healthy China 2020" in August 2012, aiming to increase the ratio to 6.5-7.0% by 2020. According to the World Health Organization Global Health Expenditure Database of the World Bank, health expenditure in China was 5.5% of its GDP in 2014, representing roughly half that of most developed markets. A study released by Deloitte

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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shows that China's overall annual expenditure is projected to grow at an average rate of 11.8% a year in 2014-2018, reaching USD892 billion by 2018. As a result, it will stimulate the growth in healthcare spending in the PRC over the next few years.

Furthermore, as stated in the Letter from the Board, in May 2015, the Circular on Printing and Distribution the Opinions on Promoting the Reform of Drug Prices was issued, proposing to abolish the original government-determined drug prices with effect from 1 June 2015, apart from narcotic drugs and Category I psychotropic substances. With further liberalization of price determination of pharmaceuticals, it may lead to the adjustment of the drug prices of the Company. Given that the overall upward market price of Chinese medicinal raw materials is rising, the Management expects that there will be room for price increase for the Group's products, thereby increasing the transaction amount under the Renewed Distribution Framework Agreement.

In light of the above, we consider that China's total health and healthcare expenditure will continue to increase rapidly as a result of combination of favorable factors, including the increasing disposable income and rising health awareness, an ageing population, increased life expectancy and the continuous PRC government support. As "Tong Ren Tang" is one of the well-established and popular brands of healthcare and pharmaceutical products in China, the Group is well-positioned for the growth of the healthcare and pharmaceutical industry in the PRC.

### *A buffer for any unexpected increase in the Proposed Annual Caps*

After discussion with the Management, we were advised that a buffer of no more than 2% and no more than 5% buffer were included to allow for further flexibility for carrying out the transaction under the Renewed Distribution Framework Agreement and Renewed Master Procurement Agreement, respectively. Having considered that the percentage buffer is below 5% and the growth factors above, we are of the view that the setting of the buffer is reasonable.

### *The Renewed Distribution Framework Agreement*

In view of the (i) relatively high utilization rates above 77% for the year ended 31 December 2014 and 2015; (ii) the Management's expectation of utilization rate for the year ending 31 December 2016 to reach around 75%; (iii) the increase in historical transaction under the Distribution Framework Agreement; (iv) the expected continuous growth of the Group's revenue and profitability; (v) no increment of the annual caps for the year ending 31 December 2017 compared with that in 2016 mainly as a result of the low utilisation rate of 58% for the eight months ended 31 August 2016; (vi) the widening of product portfolio; (vii) the expansion of the sales network of Tong Ren Tang Group; and (viii) the support from the Chinese government and the rising health awareness of the consumers, we are of the view that the bases adopted by the Management in determining the Proposed Annual Caps for the Renewed Distribution Framework Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### *The Renewed Master Procurement Agreement*

Although the utilisation rates were under 50% throughout the Track Record Period, in view of (i) the Group lowered the beginning annual cap for the year ending 31 December 2017 by 20% from that in 2016; (ii) the Management's expectation of transaction amount for the year ending 31 December 2016 to reach RMB180 million, representing a utilization rate of 60%; (iii) the increase in historical transaction under the Master Procurement Agreement; (iv) the expected continuous growth of the Group's revenue and profitability; (v) the increase in product varieties; (vi) the expansion of the scope and scale of production and business operation of Tong Ren Tang Group; (vii) the rising prices of Chinese medicinal raw materials; and (viii) the support from the Chinese government and the rising health awareness of the consumers, we concur with the Management that the demand for Tong Ren Tang Group's Chinese medicinal raw materials would further augmented. Therefore, we are of the view that the bases adopted by the Management in determining the Proposed Annual Caps for the Renewed Master Procurement Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

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

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

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

- (a) each year the independent non-executive directors must review the continuing connected transactions and confirm in the annual report and accounts that the continuing connected transactions have been entered into:
  - in the ordinary and usual course of business of the group;
  - on normal commercial terms or better; and
  - according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders as a whole;
- (b) each year the auditors of the company must provide a letter to the board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the company's annual report) confirming that the continuing connected transactions:
  - have received the approval of the board;
  - are in accordance with the pricing policies of the group;
  - have been entered into in accordance with the terms of the relevant agreements governing the continuing connected transactions; and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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- have not exceeded the annual caps;
- (c) the company shall allow, and ensure the relevant counterparties to the continuing connected transactions allow, the company's auditors sufficient access to their records for the purpose of reporting on the continuing connected transactions as set out in paragraph (b); and
- (d) the company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the independent non-executive directors and/or auditors of the company will not be able to confirm the matters set out in paragraphs (a) and (b) respectively.

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

### RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the terms of transactions contemplated under the Framework Agreements, including the Proposed Annual Caps, are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favor of the ordinary resolutions in relation to the Framework Agreements, including Proposed Annual Caps, as detailed in the notice of EGM as set out at the end of the Circular.

Yours faithfully,  
For and on behalf of  
**China Everbright Capital Limited**  
**Alvin Kam**  
*Managing Director*

*Mr. Alvin Kam is a licensed person registered with the Securities and Future Commission of Hong Kong and a responsible officer of China Everbright Capital Limited to carry out type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance. Mr. Alvin Kam has over thirteen years of experience in corporate finance industry.*

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

### (i) Directors, Supervisors and the Chief Executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors, Supervisors and chief executive of the Company 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 were as follows:

#### Long Positions in Shares

##### Tong Ren Tang Ltd.

Name	Type of interests	Capacity	Number of Shares (Note 1)	Percentage of total registered share capital	Number of convertible bonds
Mr. Gong Qin	Personal	Beneficial owner	34,965	0.003%	–

*Note 1:* All represented A shares.

Save as disclosed above, as at the Latest Practicable Date, none of the other 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		Percentage of total registered share capital
			Domestic Shares	H Shares	
Tong Ren Tang Ltd.	Beneficial owner	600,000,000	92.013%	–	46.846%
Tong Ren Tang Holdings (Note 2)	Interest of controlled corporation by the substantial shareholder	600,000,000	92.013%	–	46.846%
	Beneficial owner	9,480,000	1.454%	–	0.740%
	Total:	609,480,000	93.467%	–	47.586%
Yuan Sai Nan (Note 3)	Beneficial owner	36,720,000(L) (Note 1)	–	5.841%	2.867%
Commonwealth Bank of Australia (Note 4)	Interest of controlled corporation by the substantial shareholder	76,034,000(L) (Note 1)	–	12.094%	5.937%
Hillhouse Capital Management, Ltd. (Note 5)	Investment manager	47,736,000(L) (Note 1)	–	7.593%	3.727%
Gaoling Fund, L.P. (Note 6)	Investment manager	46,182,000(L) (Note 1)	–	7.346%	3.606%
Aberdeen Asset Management Plc and its Associates on Behalf of Accounts Managed by them (Note 7)	Investment manager	44,158,000(L) (Note 1)	–	7.024%	3.448%
Citigroup Inc. (Note 8)	Interest of controlled corporation by the substantial shareholder,	34,043,933(L) (Note 1)	–	5.415%	2.658%
	Persons having a security interest in shares, Custodian corporation/ approved lending agent	16,556,933(L) (Note 1)	–	2.633%	1.293%

*Notes:*

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

- (1) (L) – Long position (S) – Short position (P) – Lending Pool
- (2) 600,000,000 shares held by Tong Ren Tang Holdings were held through Tong Ren Tang Ltd.. As at the Latest Practicable Date, Tong Ren Tang Ltd. was owned as to 52.45% by Tong Ren Tang Holdings. Upon completion of the capitalisation issue of shares of the Company on 3 July 2014 and as at the Latest Practicable Date, Tong Ren Tang Holdings was deemed to be interested in the 600,000,000 shares held by Tong Ren Tang Ltd.. Besides, upon completion of the capitalisation issue of shares of the Company on 3 July 2014 and as at Latest Practicable Date, Tong Ren Tang Holdings also directly held 9,480,000 shares.
- (3) As was known to the Directors, on 23 June 2014, this shareholder held 18,360,000 H Shares. Upon completion of the capital issue of Shares of the Company on 3 July 2014 and as at the Latest Practicable Date, this shareholder held 36,720,000 H Shares.
- (4) As at the Latest Practicable Date, Commonwealth Bank of Australia indirectly held 76,034,000 H Shares in long position through a series of entities under its control.
- (5) As was known to the Directors, on 23 June 2014, Hillhouse Capital Management, Ltd., as investment manager, was indirectly interested in 23,091,000 H shares of the Company in long position held by Gaoling Fund, L.P. and 777,000 H shares of the Company in long position held by YHG Investment, L.P.. Upon completion of the capitalisation issue of the Company on 3 July 2014 and as at the Latest Practicable Date, this shareholder was indirectly interested in 46,182,000 H shares of the Company in long position held by Gaoling Fund, L.P. and 1,554,000 H shares of the Company in long position held by YHG Investment, L.P..
- (6) As was known to the Directors, on 23 June 2014, Gaoling Fund, L.P., as investment manager, held 23,091,000 H shares of the Company in long position. Upon completion of the capitalisation issue of the Company on 3 July 2014 and as at the Latest Practicable Date, this shareholder held 46,182,000 H shares of the Company in long position.
- (7) As at the Latest Practicable Date, Aberdeen Asset Management Plc and its associates on behalf of accounts managed by them held 44,158,000 H shares of the Company in long position as investment manager.
- (8) As the Latest Practicable Date, Citigroup Inc. indirectly held 103,000 H shares of the Company in long position through a series of entities under its control, held 17,384,000 H shares of the Company in long position as a person holding security interest in shares, and held 16,556,933 H shares of the Company as Custodian Corporation/approved lending agent.

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

### 3. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2015, being the date to which the latest published audited financial statements of the Group were made up.

### 4. INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS

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

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

As at the Latest Practicable Date, none of the Directors or the Supervisors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 December 2015, being the date to which the latest published audited financial statements of the Group were made up or were proposed to be acquired or disposed of by or leased to any member of the Group; and none of the Directors, Supervisors or their respective associates was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which was significant in relation to the business of the Group.

### 6. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

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

### 7. DIRECTORS' EMPLOYMENT WITH SUBSTANTIAL SHAREHOLDERS

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

Name of Director	Positions held in specific companies	
	Tong Ren Tang Holdings	Tong Ren Tang Ltd.
Gao Zhen Kun	director, the general manager and the vice secretary of the Party Committee	chairman
Gong Qin	secretary to the Disciplinary Committee	supervisor
Gu Hai Ou	vice general manager	director
Li Bin	deputy general manager and secretary to the board of directors	–

**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**

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

<b>Name</b>	<b>Qualification</b>
China Everbright Capital	a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO

**10. EXPERT'S INTERESTS**

As at the Latest Practicable Date, China Everbright 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 2015, being the date to which the latest audited financial statements of the Group were made up, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, and was not beneficially interested in the shares of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

**11. METHOD OF VOTING AT THE EGM**

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

**12. MISCELLANEOUS**

- (a) The registered office of the Company is located at No. 16 Tongji Beilu, Beijing Economic and Technology Development Zone, Yizhuang, Beijing, the PRC.
- (b) The share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Ltd. at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

- (c) The company secretary of the Company is Ms. Zhang Jing Yan, a practicing pharmacist with a master degree in Economics, who also serves as the secretary to the Board.

**13. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Room 1408-1409, Convention Plaza Office Tower, No.1 Harbour Road, Wanchai, Hong Kong during normal business hours from the date of this circular up to and including 14 November 2016:

- (a) the Distribution Framework Agreement dated 10 October 2013 and the renewed Distribution Framework Agreement dated 29 September 2016;
- (b) the Master Procurement Framework Agreement dated 10 October 2013 and the renewed Master Procurement Framework Agreement dated 29 September 2016;
- (c) the letter from the Independent Board Committee as set out on pages 24 to 25 of this circular;
- (d) the letter from Independent Financial Adviser as set out on pages 26 to 45 of this circular; and
- (e) the written consent of China Everbright Capital referred to in this Appendix.

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## NOTICE OF EGM

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Tong Ren Tang Technologies Co. Ltd.

北京同仁堂科技發展股份有限公司

*(a joint stock 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”) to be held at No.52 Dong Xing Long Street, Dong Cheng District, Beijing, the People’s Republic of China (the “PRC”) at 9:30 a.m. on Friday, 16 December 2016 for the purpose of considering and, if thought fit, passing the following resolutions:

#### AS ORDINARY RESOLUTIONS

1. the appointment of Mr. Rao Zu Hai as an executive director of the Company, with a term commencing from the conclusion of the EGM to the date of the annual general meeting to be convened in 2018, and the board of directors of the Company be authorised to fix the remuneration and to enter into the service contract with Mr. Rao Zu Hai on and subject to such terms and conditions as the board of directors of the Company shall think fit and to take all such actions for the purpose of giving effect to such matters.
2. **THAT**, the Distribution Framework Agreement renewed by the Company and China Beijing Tong Ren Tang Group Co., Ltd on 29 September 2016 and the annual caps for the continuing connected transactions contemplated thereunder for the three years from 1 January 2017 to 31 December 2019 are hereby approved and confirmed; and any one director of the Company is hereby authorised 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 Distribution Framework Agreement with such changes as he may consider necessary, desirable or expedient.
3. **THAT**, the Master Procurement Agreement renewed by the Company and China Beijing Tong Ren Tang Group Co., Ltd. on 29 September 2016 and the annual caps for the continuing connected transactions contemplated thereunder for the three years from 1 January 2017 to 31 December 2019 are hereby approved and confirmed; and any one director of the Company is hereby authorised 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

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## NOTICE OF EGM

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

By order of the Board  
**Tong Ren Tang Technologies Co. Ltd.**  
**Gao Zhen Kun**  
Chairman

Beijing, the PRC  
31 October 2016

*As at the date of this notice, the Board comprises Mr. Gao Zhen Kun, Mr. Gong Qin, Mr. Gu Hai Ou, Mr. Li Bin, Mr. Wang Yu Wei and Ms. Fang Jia Zhi as executive Directors; Miss Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan 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 Wednesday, 16 November 2016 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 appointor or his attorney duly authorised 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 authorised attorney(s). If the written instrument is signed by an attorney of the appointor, the power of attorney or other documents of authorisation of such attorney shall be notarised.
- (3) To be valid, the notarised power of attorney or other document(s) of authorisation (if any) and the form of proxy shall be delivered to (i) Hong Kong Registrars Ltd., the H share registrar and transfer office of the Company in Hong Kong, for holders of H shares; and (ii) the office address of the Company for holders of domestic shares, no less than 24 hours before the time fixed for convening the EGM or any adjournment thereof (as the case may be). Completion and return of a form of proxy will not preclude a shareholder from attending and voting in person at the meeting if he so desires.
- (4) If a shareholder appoints more than one proxy, such proxies shall only exercise their voting rights by a poll.

### **3. REGISTRATION PROCEDURES FOR ATTENDING THE EGM**

- (1) A shareholder or his proxy shall produce his identification document when attending the EGM. Where a shareholder is a legal person, the legal representative of that shareholder or the person authorised 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.

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## NOTICE OF EGM

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- (2) Shareholders intending to attend the EGM shall return to the Company the reply slip stating their attendance on or before Friday, 25 November 2016.
- (3) A shareholder may return the above reply slip to the Company in person, by post or by facsimile to the office of the Company or the H share registrar and transfer office of the Company, Hong Kong Registrars Ltd..

#### **4. CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, 16 November 2016 to Friday, 16 December 2016 (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 Limited, the Company's H share registrar and transfer office in Hong Kong, at rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 15 November 2016.

#### **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 HongKong, is 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (3) The office and the contact details of the Company are:

No. 20, Nansanhuan Zhonglu, Fengtai District  
Beijing, the PRC  
Telephone: (+86) 10 6705 6924  
Fax: (+86) 10 6705 9266