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BEIJING TONG REN TANG CHINESE MEDICINE COMPANY LIMITED

北京同仁堂國藥有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 3613)

**CONTINUING CONNECTED TRANSACTIONS
REGARDING
RENEWED MASTER LEASE FRAMEWORK AGREEMENT**

THE RENEWED MASTER LEASE FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated 25 January 2017 in relation to, inter alia, the continuing connected transactions contemplated under the Existing Master Lease Framework Agreement with Tong Ren Tang Holdings.

As the Existing Master Lease Framework Agreement will expire on 31 December 2019, the Company has entered into the Renewed Master Lease Framework Agreement with Tong Ren Tang Holdings on 30 December 2019, pursuant to which, Tong Ren Tang Holdings has agreed to lease and procure other members of the Tong Ren Tang Group to lease certain premises to the Group for its productions and operations so that any member of the Group may amend or renew the Existing Leases with any member of the Tong Ren Tang Group from time to time for a further term of three years ending on 31 December 2022, subject to the annual caps.

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 Listing Rules. Accordingly, the transactions contemplated under the Renewed Master Lease Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Upon implementation of HKFRS 16 effective from 1 January 2019, the Group if entering into lease transaction as a lessee should recognise the right-of-use asset in the consolidated financial statements according to HKFRS 16. Under the Listing Rules, the entering into lease transaction by the Group as lessee effective from 1 January 2020 will be regarded as an acquisition of asset under the definition of transaction set out in Rule 14.04(1)(a) of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio and equity capital ratio) of the proposed annual caps under the Renewed Master Lease Framework Agreement for the three years ending 31 December 2022, exceed 0.1% but less than 5%, the transactions contemplated under the Renewed Master Lease Framework Agreement are subject to reporting, announcement and annual review requirements but exempt from the independent Shareholders' approval requirements under Listing Rules.

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The Renewed Master Lease Framework Agreement

- Date** : 30 December 2019 (after trading hours)
- Parties** : (1) the Company
(2) Tong Ren Tang Holdings
- Term** : The Renewed Master Lease Framework Agreement is for a term of three years commenced from 1 January 2020 and ending on 31 December 2022 (both days inclusive). Upon expiry, the Renewed Master Lease Framework Agreement will, subject to, compliance with the relevant requirements under the Listing Rules and agreement of the parties, be renewed for a further term of three years.
- Subject** : The Renewed Master Lease Framework Agreement sets out a framework of the terms on which Tong Ren Tang Holdings has agreed to lease and procure other members of the Tong Ren Tang Group to lease certain premises to any members of the Group for the Group's productions and operations, including but not limited to office premises, warehouses and staff quarter.

- Rental determination** :
- The terms of all Leases shall be negotiated on an arm's length basis and shall be fair and reasonable.
 - The relevant market price is determined by reference to the rental information gathered by the Group of certain premises of similar specification and size in similar locations based on such market terms to make sure that the terms offered by the Tong Ren Tang Group would not be less favorable than those offered by third parties on the market; or
 - where the market price is not available, the contracted price, which shall be determined after arm's length negotiation based by both parties of the agreement based on the principle of cost plus a fair and reasonable profit rate and by reference to the historical rentals. The reasonable cost shall be determined by reference to the size of the premises provided by the Tong Ren Tang Group, and the cost of premises management.
- Payment** :
- The rentals under the Renewed Master Lease Framework Agreement are payable by cash according to the specific and separate implementation agreements and funded by the Group's internal resources. The Directors are of view that such payment terms are in line with the market practice.

Historical figures

For the two years ended 31 December 2018 and six months ended 30 June 2019, the Group had the following previous annual caps and amounts paid/payable to the Tong Ren Tang Group in respect of the leases of premises with the Tong Ren Tang Group under the Existing Master Lease Framework Agreement:

	For the year ended 31 December				Six months	Year ending
	2017		2018		ended 30	31 December
	Actual	Historical	Actual	Historical	June 2019	2019
	amounts	cap	amounts	cap	Actual	Historical
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
	(Audited)		(Audited)		(Unaudited)	
Total rental paid/payable by the Group to the Tong Ren Tang Group under the Existing Master Lease Framework Agreement	4,584	6,200	4,643	6,900	2,060	7,000

Since the certain with new annual rentals and additions of certain leases of premises from 1 January 2020, in order to compliance with the Listing Rules, the Company has decided to enter into the Renewed Master Lease Framework Agreement to facilitate the lease transactions between the Group and the Tong Ren Tang Group.

Proposed annual caps

According to HKFRS 16 which was effective for the Group from 1 January 2019, the Group is required to recognize a right-of-use asset and a lease liability, which are measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate in the year of entering into the lease where the Group acts as a lessee. Correspondingly, the Group is required to set annual caps on the total value of right-of-use assets relating to leases to be entered into by the Group as a lessee in each year under the Renewed Master Lease Framework Agreement.

The Directors have proposed the following annual caps, which represent the total value of right-of-use assets relating to leases to be entered into by the Group in each year under the Renewed Master Lease Framework Agreement, for the three years ending 31 December 2020, 2021 and 2022:

	For the year ending 31 December		
	2020 (HK\$'000)	2021 (HK\$'000)	2022 (HK\$'000)
Proposed annual caps	21,000	16,000	11,200

In arriving at the above proposed annual caps, the Directors have taken into account the following factors:

- (a) the annual rental payable to the Tong Ren Tang Group under the Existing Leases;
- (b) the stable growth of the market rental of the premises leased under the Renewed Master Lease Framework Agreement during the three years ending 31 December 2022;
- (c) expected new leases of the premises in the PRC for the office and warehouse use during the three years ending 31 December 2022;
- (d) the potential appreciation in the RMB and other foreign currencies against HK\$; and
- (e) a buffer of around 18% has been provided to the proposed annual caps for the possible demand of the Group for the new leases of premises for its business expansion.

Implementation agreements

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

As the implementation agreements provide for the lease of the relevant premises as contemplated under the Renewed Master Lease Framework Agreement, as such, they do not constitute new categories of connected transactions. Any such implementation agreements will be within the ambit of the Renewed Master Lease Framework Agreement and the relevant annual caps, and if exceed, the Company will comply with the relevant Listing Rules accordingly.

INTERNAL CONTROL MEASURES

In order to ensure that the aforesaid pricing basis for the transactions contemplated under the Renewed Master Lease Framework Agreement is adhered to, the Company will adopt the following internal control measures:

- (i) after entering into the Renewed Master Lease Framework Agreement, the continuing connected transactions shall be strictly in compliance with the approved terms and conditions. Implementation agreements under the Renewed Master Lease Framework Agreement shall be performed in strict accordance with pricing policies set out in the Renewed Master Lease Framework Agreement. If revision of such terms and conditions is required due to change of actual situation, it is required to re-perform appropriate approval process;
- (ii) the finance department of the Company is responsible for monitoring, collecting and reviewing the pricing terms, payment arrangements and actual transaction amounts of each of the specific implementation agreements to the Renewed Master Lease Framework Agreement. The finance department of the Company is responsible for collecting the total transaction amounts of the continuing connected transactions under the Renewed Master Lease Framework Agreement on a monthly basis. The relevant departments of the Company also continue to monitor the aforesaid information so as to ensure all transactions under the Renewed Master Lease Framework Agreement are entered into on normal commercial terms or better, are fair and reasonable, and such transactions are carried out pursuant to the terms of the Renewed Master Lease Framework Agreement. The relevant departments, if discover any imminent or possible exceeding of the annual caps of any continuing connected transactions under the Renewed Master Lease Framework Agreement, shall report as soon as possible to the compliance department of the Company to determine whether to raise the annual caps. If the compliance department confirms the necessity to raise the annual caps, the relevant departments shall propose the revised annual caps and reasons for adjustment, and relevant approval and disclosure procedures shall be re-performed. Before completion of all of the approval and disclosure procedures, the relevant departments involved in the continuing connected transactions shall ensure that the transaction amounts do not exceed the respective annual caps;
- (iii) the independent non-executive Directors will review the continuing connected transactions under the Renewed Master Lease Framework Agreement to ensure all transactions contemplated thereunder are entered into on normal commercial terms or better, are fair and reasonable, and such transactions are carried out pursuant to the terms of the Renewed Master Lease Framework Agreement; and
- (iv) the auditor of the Company will also conduct an annual review on the pricing and annual caps of the continuing connected transactions under the Renewed Master Lease Framework Agreement.

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

REASONS FOR ENTERING INTO THE RENEWED MASTER LEASE FRAMEWORK AGREEMENT

The Group anticipates that it will continue to lease from Tong Ren Tang Group to satisfy the future business needs of the Group from time to time. Accordingly, the Company and Tong Ren Tang Holdings have entered into the Renewed Master Lease Framework Agreement to set out a framework of the terms on which they may enter into certain lease agreements.

In view of the above and that (a) compared with leasing from independent third parties, the Tong Ren Tang Group has a better understanding of the Group's requirements in terms of premises; and (b) the Renewed Master Lease Framework Agreement enables the Group to secure relatively more stable rental terms, the Directors (including the independent non-executive Directors) consider that the Renewed Master Lease Framework Agreement (i) are entered into in the ordinary and usual course of business of the Group; (ii) the Renewed Master Lease Framework Agreement (together with the proposed annual caps) are entered into on normal commercial terms after arm's length negotiations between the parties; and (iii) the terms of the Leases contemplated under the Renewed Master Lease Framework Agreement (together with the annual caps) are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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Ms. Ding Yong Ling (who is the director and the deputy general manager of Tong Ren Tang Holdings), is considered to have material interests in the transactions contemplated under the Renewed Master Lease Framework Agreement by virtue of her positions in Tong Ren Tang Holdings and has abstained from voting on the relevant resolutions in the Board meeting to approve the transactions contemplated under the Renewed Master Lease Framework Agreement. Save as disclosed, there is no other Director who has a material interest in the transactions contemplated under the Renewed Master Lease Framework Agreement.

GENERAL INFORMATION

The Company

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

Tong Ren Tang Holdings

Tong Ren Tang Holdings is an investment holding company. The Tong Ren Tang Group 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.

DEFINITIONS

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

“Board”	the board of Directors of the Company
“Company”	Beijing Tong Ren Tang Chinese Medicine Company Limited, a limited company incorporated in Hong Kong, the shares of which were listed on GEM of the Exchange on 7 May 2013 and were transferred to the Main Board of the Exchange on 29 May 2018
“connected persons”	has the meaning ascribed thereto under the Listing Rules
“Directors”	the directors of the Company
“Existing Leases”	the lease(s) entered into between the members of the Tong Ren Tang Group and the members of the Group
“Existing Master Lease Framework Agreement”	an existing master lease framework agreement dated 25 January 2017 entered into between the Company and Tong Ren Tang Holdings in respect of the leasing of certain premises by Tong Ren Tang Holdings or other members of the Tong Ren Tang Group to the Group
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“GEM”	GEM operated by the Stock Exchange
“Group”	the Company and its subsidiaries (either directly owned or indirectly owned)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong

“Leases”	the Existing Leases, and such other new leases which may be entered into by members of the Group with Tong Ren Tang Holdings under the Renewed Master Lease Framework Agreement from time to time
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Main Board”	the stock market operated by the Stock Exchange, which exclude, the option market and which continues to be operated by the Stock Exchange in parallel with GEM and which, for avoidance of doubt excludes GEM
“PRC”	the People’s Republic of China and, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Renewed Master Lease Framework Agreement”	a new master lease framework agreement dated 30 December 2019 entered into between the Company and Tong Ren Tang Holdings in respect of the leasing of certain premises by Tong Ren Tang Holdings or other members of the Tong Ren Tang Group to the Group
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	the shareholders of the Company
“Stock Exchange” or “Exchange”	The Stock Exchange of Hong Kong Limited
“Tong Ren Tang Group”	Tong Ren Tang Holdings, its subsidiaries (either directly owned or indirectly owned), its jointly-controlled entities and its associates, excluding the Group
“Tong Ren Tang Holdings”	China Beijing Tong Ren Tang Group Co., Ltd., a state-owned enterprise established in the PRC on 17 August 1992 and is the ultimate controlling shareholder of the Company

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

Hong Kong, 30 December 2019

As at the date of this announcement, the Board comprises the executive directors, namely Ms. Ding Yong Ling (Chairman), Mr. Zhang Huan Ping and Ms. Lin Man; and the independent non-executive directors, namely Mr. Tsang Yok Sing, Jasper, Mr. Zhao Zhong Zhen and Mr. Chan Ngai Chi.