RAINBOW CAPITAL (HK) LIMITED
滾 博 資 本 有 限 公 司

Rainbow Capital (HK) Limited

1 December 2025

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

PROPOSED RENEWAL OF CONTINUING CONNECTED TRANSACTIONS DISTRIBUTION FRAMEWORK AGREEMENT AND MASTER PROCUREMENT AGREEMENT

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed renewal of the Distribution Framework Agreement and the Master Procurement Agreement from 1 January 2026 to 31 December 2028, details of which are set out in the "Letter from the Board" (the "**Letter from the Board**") of the circular to the Shareholders dated 1 December 2025 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in this Circular.

As each of the Distribution Framework Agreement and the Master Procurement Agreement entered into between the Company and Tong Ren Tang Holdings will expire on 31 December 2025, the parties renewed such agreements on 29 September 2025, each for a term of three years from 1 January 2026 to 31 December 2028, and set the annual caps for the continuing connected transactions contemplated under each of the aforesaid agreements for the three years ending 31 December 2028.

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 renewed Master Procurement Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules. Tong Ren Tong Holdings and its associates will abstain from voting in respect of the relevant resolutions at the EGM.

As one or more of the applicable percentage ratios in respect of the estimated annual caps for the continuing connected transactions under the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement respectively exceed 5%, both the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement, as well as the proposed annual caps for the continuing connected transactions contemplated thereunder are subject to independent shareholders' approval requirement in addition to reporting, annual review and announcement requirements under Chapter 14A of the Hong Kong Listing Rules.

An Independent Board Committee comprising all independent non-executive Directors has been 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 continuing connected transactions contemplated thereunder. We, Rainbow Capital, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

As at the Latest Practicable Date, we did not have any relationships or interests with the Company and Tong Ren Tang Holdings that could reasonably be regarded as relevant to our

independence. In the last two years, there was no engagement between the Company and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Company or any other party to the renewed Distribution Framework Agreement and renewed Master Procurement Agreement. Accordingly, we are independent from the Company pursuant to the requirement under Rule 13.84 of the Hong Kong Listing Rules and therefore we are qualified to give independent advice in respect of the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in this Circular; (ii) the information supplied by the Company; (iii) the opinions expressed by and the representations of the Directors and the management of the Company; and (iv) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in this Circular were true, accurate and complete in all respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in this Circular are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Company and those as set out or referred to in this Circular were reasonably made after due and careful enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the management of the Company. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in this Circular and that all information or representations provided to us by the Directors and the management of the Company are true, accurate, complete and not misleading in all respects at the time they were made and continued to be so until the date of this Circular.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in this Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Company, nor have we conducted any form of in-depth investigation into the business, affairs, operations, financial position or future prospects of the Company, Tong Ren Tang Holdings or their respective substantial shareholders, subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation on the terms of the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement (including the respective annual caps), we have taken into account the following principal factors and reasons:

1. Information on the Company and Tong Ren Tang Holdings

1.1 The Company

The Company is a joint stock company incorporated in Beijing, the PRC with limited liability and the H shares of which are listed on the Main Board of the Hong Kong Stock Exchange, which is principally engaged in the manufacturing and sale of Chinese medicine.

As disclosed in the annual report of the Company for the year ended 31 December 2024

("**FY2024**") (the "**2024 Annual Report**"), revenue from the sales of Chinese medicine products amounted to approximately RMB6,708.6 million for the year ended 31 December 2023 ("**FY2023**") and RMB7,195.2 million for FY2024, which accounted for approximately 99.0% and approximately 99.1% of the total revenue for FY2023 and FY2024, respectively.

1.2 Tong Ren Tang Holdings

Tong Ren Tang Holdings is engaged in the processing and manufacture of Chinese patent medicine and Chinese medicinal decoction pieces, sales of Chinese medicinal, Chinese patent medicine and Chinese medicinal decoction pieces, medical food, warehousing and transportation, etc. Beijing State-owned Assets Supervision and Administration Commission (北京市國有資產監督管理委員會) ("**Beijing SASAC**") is the ultimate beneficial owner of Tong Ren Tang Holdings. Pursuant to the Program for the Reform of the Institutions of the People's Government of Beijing Municipality (《北京市人民政府機構改革方案》) as approved by the Central Committee of the Communist Party of China and the State Council and the Circular of the People's Government of Beijing Municipality about the Establishment of Institutions (《北京市人民政府關於設立機構的通知》), Beijing SASAC is established as a special institution directly under the Municipality Government and is authorized by the Municipality Government to represent the State to perform the duties of the state-owned assets contributor.

As one of the leading companies in Chinese traditional medicine industry, it boasts an extensive product portfolio with over 800 approved drug codes, and its core products hold a dominant market share in their respective categories, often setting the benchmark for both price and quality.

Tong Ren Tang Holdings is a state-owned enterprise established in the PRC and the ultimate controlling shareholder of the Company who is directly and indirectly interested in approximately 48.18% equity interest in the Company.

2 Proposed renewal of the Distribution Framework Agreement

2.1 Background and reason

As stated in the Letter from the Board, Tong Ren Tang Holdings, with its most subsidiaries and associates located in the PRC, has a sales network providing a wide coverage. The Company considers that the utilisation of the sales network of Tong Ren Tang Group to distribute the Group's products will give full play to the advantage of the brand and resources owned by Tong Ren Tang Holdings and expand the market share of the Group, hence is beneficial to the development of the business of the Group.

Having considered that: (i) the Company has established and maintained long-term distribution relationship with Tong Ren Tang Holdings for over 20 years; (ii) the renewal of the Distribution Framework Agreement will enable the Group to maintain and strengthen its market share with the expansion of the distribution channels; and (iii) the Group has flexibility in choosing suitable distributors with favourable terms to the Group, we concur with the Directors that the entering into of the renewal of the Distribution Framework Agreement is conducted in the ordinary and usual course of the Company's business and are in the interests of both the Company and the Shareholders as a whole.

2.2 Principal terms of the renewed Distribution Framework Agreement

Details of the terms of the renewed Distribution Framework Agreement are set out in the

Letter from the Board, which are summarised as follows:

Date	:	29 September 2025
Parties	:	the Company； and 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 2026 to 31 December 2028.
Principles terms and conditions	:	Pursuant to the renewed Distribution Framework Agreement: • The Company agreed that the Group may, from time to time, sell its products to members of Tong Ren Tang Group. • Tong Ren Tang Holdings agreed that Tong Ren Tang Group as the non-exclusive distributor of the Group, members of Tong Ren Tang Group may, from time to time, purchase products from the Group and then distribute the same to retailers and/or end-users. • Details of the products and quantities to be sold by the Group to Tong Ren Tang Group shall be determined by the Group and Tong Ren Tang Group according to market conditions and stated in the individual implementation agreement.
Pricing policies	:	Under the renewed Distribution Framework Agreement, the price of the products to be sold by the Group to Tong Ren Tang Group is determined based on market orientation, and such terms shall be no less favorable than the pricing terms of the products sold by the Group to other independent third parties under the same conditions and shall be determined in accordance with a reasonable cost plus a fair and reasonable profit margin: (i) the reasonable cost shall be determined with reference to the cost of the raw materials, the cost of labor and the manufacturing expense of the Group, etc.; and (ii) the profit margin shall be determined by reference to the prevailing market rate and the then market price for comparable products in the related industry, and the average gross profit rate of the products of the Group in the past years (approximately 35% to 45%).
Payment of the fees	:	Payment arrangement will be negotiated by the parties participating in the specific transactions contemplated under the renewed Distribution Framework Agreement and as stated in the individual implementation agreement. Usually, according to the actual payment arrangement, the payment shall be settled by wire transfer or by acceptance bill, the credit period is between 30 days and 180 days, and shall be the same as the arrangement with other independent third parties.
Implementation Agreement	:	During the term of the renewed Distribution Framework Agreement, members of the Group and members of Tong Ren Tang Group will enter into, from time to time and as

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

2.3 Our analysis regarding the terms of the renewed Distribution Framework Agreement

We have reviewed and compared the principal terms of the renewed Distribution Framework Agreement with those of the existing Distribution Framework Agreement, and noted that there is no material difference in comparison with the existing Framework Agreement. As such, we consider the terms of the renewed Distribution Framework Agreement are on normal commercial terms which are fair and reasonable.

For the purpose of assessing the fairness and reasonableness of the terms of the renewed Distribution Framework Agreement, we have selected on a random basis and obtained and reviewed 15 sales contracts entered into between the Company and Tong Ren Tang Group, and 15 sales contracts between the Company and independent third parties for FY2023, FY2024 and eight months ended 31 August 2025. Taking into account (a) the similarity of products and period covered under the aforesaid framework sales contracts; (b) the similarity of the specific sales agreement covered under the aforesaid framework sales contracts; (c) the sales contracts were effective under the period of the Distribition Framework Agreement; and (d) a total of 30 sample contracts were selected, obtained and reviewed, we are of the view that the aforesaid samples we have reviewed are fair and representative. Based on our review, we noted that the (a) major terms including the scope of sales and the pricing policy of the historical transactions with Tong Ren Tang Group is in line with the existing Distribution Framework Agreement; (b) the pricing basis to each contract with Tong Ren Tang Group and independent third parties is the same; and (c) the terms of the sales contract with Tong Ren Tang Group are no less favourable than those with independent third parties.

To assess the fairness and reasonableness of payment terms of the renewed Distribution Framework Agreement, we have reviewed: (i) the trade and bills receivables balances in the Company's annual report for FY2023, FY2024 and interim report for FY2025; (ii) the Company's internal sales credit and accounts receivable management system guideline; and (iii) the corresponding bank receipts and invoices of the 15 selected sales contracts with Tong Ren Tang Group and 15 selected sales contracts with the other independent third parties, we are of the view that the credit terms and payment method of transactions between the Company and Tong Ren Tang Group are the same as transactions with the other independent third parties, and consistent with the Distribution Framework Agreement.

To ensure the fairness and reasonableness of the pricing policies under the renewed Distribution Framework Agreement, we have reviewed the selling prices, payment terms and delivery methods under 15 sales contracts entered into between the Company and Tong Ren Tang Group and 15 sales contracts between the Company and independent third parties for FY2023, FY2024 and eight months ended 31 August 2025 and concluded that the contracts with Tong Ren Tang Group are no less favorable than independent third parties. We have also conducted an independent market research about the gross profit margins of the comparable companies in last three years based on our review of the published annual reports of these comparable companies on the website of the Hong Kong Stock Exchange and compared with the average gross profit rate of the Company in FY2023, FY2024 and six months ended 30 June 2025. The selection criteria for the comparable listed companies are those whose over 50% of the revenue stream is generated from the

trading of Chinese medicine and health products which are comparable to that of the Group. Based on our independent research, we are of the view that the samples represent a fair, representative and exhaustive sample list. The average gross profit margins of the comparable companies and the Company are 43.9% and 40.0% separately, which are both in the range of approximately 35% to 45% which the pricing policy under the Renewed Distribution Framework Agreement indicates. Given that: (i) the average gross profit margin of the comparable companies is close to the gross profit level of the Company; (ii) the gross profit margin of the Company and the average gross profit margin of comparable companies are both in the range as stated in the pricing policy under the Renewed Distribution Framework Agreement; and (iii) the gross profit margin is not a fixed market standard but slightly fluctuates due to various factors, including but not limited to, company size, geographical location and company's bargaining power, we consider that the gap between the gross profit margin of comparable companies and the Company is reasonable, and the 35%-45% gross profit range is a fair range as the pricing reference. Based on the above, we noted that the pricing policies under the Renewed Distribution Framework Agreement is fair. Set out below is the summary of our aforesaid independent market research:

Company Name	**Gross profit margin for FY2023**	**Gross profit margin for FY2024**	**Gross profit margin for 2025H1**	**Average For the Past 3 Years**
China Healthwise Holdings Limited (348.HK)	41.2%	32.9%	32.4%	35.49%
JBM (Healthcare) Limited (2161.HK)	39.5%	52.1%	52.9%	48.17%
Guangzhou Baiyunshan Pharmaceutical Holdings (874.HK)	48.7%	46.9%	48.7%	48.11%
Average				**43.9%**
The Company	**42.0%**	**39.6%**	**38.2%**	**40.0%**

After taking into account (i) there is no material difference between the terms of the renewed Distribution Framework Agreement and the terms of the existing Framework Agreement; and (ii) the contracts under the renewed Distribution Framework Agreement are no less favorable to the Company than those of contracts entered into with independent third parties, we are of the view that the terms of the renewed Distribution Framework Agreement are on normal commercial terms which are fair and reasonable.

2.4 Assessment of the proposed annual caps

Set out below are the annual caps and historical transaction amounts of the existing Distribution Framework Agreement for the years or period indicated:

	For the year ended 31 December	**For the eight months ended**

			31 August (Unaudited)
	2023	2024	2025
	(RMB million)	*(RMB million)*	*(RMB million)*
Annual caps	2,680	3,000	3,450
Historical transaction amounts	1,590.40	2,245.86	1,699.28
Utilisation rate	59.34%	74.86%	73.88%*(Note)*

Note: The utilisation rate is calculated by dividing the historical transaction amount for the eight months ended 31 August 2025 by the pro-rated annual cap.

As shown in the above table, the annual caps under the Distribution Framework Agreement for the two years ended 31 December 2024 and for the eight months ended 31 August 2025 have been moderately utilised. As advised by the management of the Company, the aforesaid increasing utilisation rate is generally in line with the steady increase in the Company's revenue during the relevant periods.

Set out below is the proposed annual caps under the renewed Distribution Framework Agreement for the three years ending 31 December 2028:

	For the year ending 31 December		
	2026	2027	2028
	(RMB million)	*(RMB million)*	*(RMB million)*
Annual caps	3,700	4,220	4,820

As set out in the Letter from the Board, the proposed caps were primarily determined by reference to (i) the historical transaction amounts; (ii) the increasing utilisation rate of the Company's annual cap over the past two years and eight months from approximately 60% in 2023, approximately 75% in 2024 and approximately 74% by the pro-rated annual cap for the eight months ended 31 August 2025; (iii) the increasing historical transaction amount under the Distribution Framework Agreement in 2024 by approximately 41% compared to 2023, and the expected historical transaction amount increase in 2025 by approximately 13% compared to 2024 and approximately 60% compared to 2023; (iv) the approximately 10% growth in the compound annual growth rate (CAGR) of revenue of the Group from 2022 to 2024; (v) the expanding scale of the Group's product portfolio; (vi) the 33% growth of the number of retail stores under the "Tong Ren Tang" brand from 2022 to 2024; and (vii) the recovery of market conditions and overall economy in the PRC.

Based on the above, the annual caps of transaction value under the renewed Distribution Framework Agreement over the next three years are anticipated at a rate of approximately 14% per year. This growth rate has been determined by considering: (i) the approximately 10% growing CAGR of revenue from 2022 to 2024; (ii) the increment of the overall output value and production volume of finished Chinese medicine of the Company in 2024 by approximately 16% and 12%, respectively, compared to 2022; and (iii) the 11% growth of CAGR of sales revenue of the Company's top five product series from 2022 to 2024. In addition, an additional buffer of 5% has been included for the estimated sales of products by the Company under the renewed Distribution Framework Agreement for any unexpected increase in the aforesaid amount in the next three years.

In assessing the fairness and reasonableness of the proposed annual caps above, we have reviewed:(i) the financial performance of the Company through the annual reports, and noted that the revenue of the Group raised from approximately RMB5,991.8 million to approximately RMB7,259.6 million from the year ended 31 December 2022 ("**FY2022**") to FY2024, resulting in a growth of the sales revenue of CAGR of approximately 10%; (ii) the 14th Five-Year Plan for the Development of Traditional Chinese Medicine (《「十四五」中醫藥發展規劃》) and noted that health services provided by traditional Chinese medicine will be significantly enhanced by 2025,

according to the plan released by the General Office of the State Council, which brings a significant positive affect on Chinese medicine industry and boosts demands for Chinese medicine products; and (iii) the traditional Chinese medicine industry report published by Qianzhan Industry Research Institute, which was founded in 1998 and qualified by the National Bureau of Statistics to accept international research service projects, we noted that China's traditional Chinese medicine industry is expected to grow at a compound annual growth rate of 14% from 2024 to 2029. Based on the above and a 5% buffer for each year, an increase by approximately 14% in the annual caps per year is regarded as fair and reasonable. Based on the above, we are of the view that the proposed annual caps under the renewed Distribution Framework Agreement are fair and reasonable.

2.5 Measures on internal control

As set out in the Letter from the Board, to ensure the Company's conformity with the pricing policies in relation to the continuing connected transactions contemplated under the renewed Distribution Framework Agreement, the Company has adopted the following internal control policies for its daily operation:

(a) After renewing the Distribution Framework Agreement, the continuing connected transactions contemplated thereunder shall be strictly in compliance with the approved terms and conditions. Individual implementation agreements of the renewed Distribution Framework Agreement shall be performed in strict accordance with pricing policies set out in the renewed Distribution Framework Agreement. If revision of such terms and conditions is required due to change of actual situation, it is required to re-perform appropriate approval process;

(b) The relevant business departments of the Company will continuously monitor the pricing terms, receipt arrangements and historical transaction amount of each of the individual implementation agreements relating to the renewed Distribution Framework Agreement, and the audit department of the Company will review the implementation of the relevant management policies of the Company in the assessment of the internal control system every half year, and conduct sampling review of the above information, so as to ensure transactions under the renewed Distribution Framework Agreement comply with the relevant management policies of the Company and ensure the relevant transactions are entered into on normal commercial terms or better and are fair and reasonable, the terms and conditions available to the Group are no less favorable than those available to independent third parties, and such transactions are carried out pursuant to the terms of the renewed Distribution Framework Agreement;

(c) The marketing department/sales department of the Company is responsible for monitoring, collecting and evaluating the market data on a quarterly basis, including but not limited to the prevailing market and the then market price for comparable products in the related industry, which is subject to the preliminary review by the sales personnel and the final review by the sales manager. Under the circumstances such as the then market price for the comparable products recorded significant increases or decreases as compared with the price of the specific product under the renewed Distribution Framework Agreement as set by the Company, and under the premise of not violating the annual sales policy, adjustments shall be made upon collective resolution at the sales department manager's office meeting;

(d) The financial department of the Company is responsible for collecting and totaling the transaction amount of the Group's continuing connected transactions on a monthly basis based on the respective transaction amount reported by the relevant business departments, and is responsible to prepare the summary sheet of the Group's continuing connected

transactions. Relevant business departments or financial department, if discover any imminent or possible exceeding of 80% of the annual caps of any continuing connected transactions, shall report as soon as possible to the financial department and the securities affairs department of the Company, the relevant business departments, financial department and securities affairs department of the Company will carry out assessments for adjusting the annual caps based on future business needs. Upon completion of the assessment, if the relevant business departments confirm the necessity to revise the annual caps, they shall make the application regarding the revision of annual caps, including but not limited to the amount and composition of the revised annual caps as well as the basis for adjustment, and then submit the application to the Party Committee and the board of managers of the Company for review and discussion after obtaining the approval of the head of business. The Board or the shareholders' general meeting will finally decide whether to revise the annual caps of the relevant continuing connected transactions and proceed with the relevant disclosure procedures. Before completion of all approval and disclosure procedures, the person in charge of the relevant business departments involved in the continuing connected transactions shall ensure that the transaction amounts do not exceed the original annual caps;

(e) The Company will implement, amend and improve the relevant rules and the requirements, and specify that the subsidiaries of the Company will comply with the above-mentioned pricing policies in respect of the continuing connected transactions contemplated under the renewed Distribution Framework Agreement;

(f) The independent non-executive Directors of the Company have reviewed and will continue to review the continuing connected transactions under the renewed Distribution Framework Agreement, so as to ensure all transactions contemplated thereunder are entered into on normal commercial terms or better and are fair and reasonable, the terms and conditions available to the Group are no less favorable than those available to independent third parties, and such transactions are carried out pursuant to the terms of the renewed Distribution Framework Agreement; and

(g) The auditors of the Company will also conduct an annual review on the pricing and annual caps of such continuing connected transactions.

We reviewed (i) 15 sales contracts between the Company and Tong Ren Tang Holdings, which were randomly selected by us and noticed that the pricing terms and payment terms of specific sales contracts per FY2023, FY2024 and eight months ended 31 August 2025, which the Company entered into with Tong Ren Tang Group are determined in accordance with the Distribution Framework Agreements, and these sales contracts have been approved by the authorized representatives of the members of the Company and affixed with the company stamp; (ii) 15 distribution contract approval forms which were randomly selected by us, with signs of authorized representatives for FY2023, FY2024 and eight months ended 31 August 2025, which confirms that the sales quantity and price would be reviewed by the Company; (iii) the sales pricing principle document of the Company and 3 randomly selected weekly report on price information of Chinese Medicines prepared by the business department for FY2023, FY2024 and FY2025, we noted that the business department has special management group to monitor and adjust the sales price by comparing with market price to ensure the pricing is reasonable; (iv) 5 out of 5 internal control evaluation reports from FY2023 to six months ended 30 June 2025 to conclude that the Company has half annually reviewed the internal control system, and we found no material defects and ineffectiveness through the past reports; (v) confirmation from the independent non-executive directors and the Auditor's letters for FY2023 and FY2024 in respect of continuing connected transactions of the Company, without aware of material abnormality in relation to the internal control measures on the Company's continuing connected transactions; and (vi) 3 randomly selected communication records of the Board of Directors for

FY2023 to six months ended 30 June 2025, and we conclude that the Board of the Company has monthly reviewed the historical transaction amount of the connected transactions under the Distribution Framework Agreement and also monitored whether the annual limit is exceeded.

We are of the view that all samples selected above are fair and representative. After reviewing the above, we come to conclude that the Company's internal control measures are effective and can ensure and safeguard that the transactions contemplated under the renewed Distribution Framework Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the minority Shareholders as a whole.

3 Proposed renewal of the Master Procurement Agreement

3.1 Background and reason

As stated in the Letter from the Board, Tong Ren Tang Holdings owns subsidiaries that specialise in Chinese medicinal raw materials related business, which provides variable Chinese medicinal raw materials with good quality. Meanwhile, some of its subsidiaries in China own their own production facilities for medicinal raw materials in local Chinese medicinal raw materials origins and have extensive experience in procuring Chinese medicinal raw materials and a broad customer base. Since resources of suppliers or qualifications of several Chinese medicinal raw materials are limited, procurement of such raw materials by the Group from Tong Ren Tang Group which owns such resources and qualifications will secure the quality of raw materials procured by the Group, and ensure the production stability and product supply of the Group. In addition, Tong Ren Tang Holdings also owns subsidiaries which are engaged in the production and sales of Chinese Medicine products. Therefore, the procurement of such products by the Group from Tong Ren Tang Group is beneficial to the development of the production and distribution of Chinese Medicine products of the Company.

Having considered that: (i) the Company has established and maintained long-term supplier relationship with Tong Ren Tang Holdings for over 20 years; (ii) Tong Ren Tang Group is always on the list of the Company's qualified suppliers, providing a stable and quality supply of Relevant Products to support the principal business of the Group; and (iii) the non-exclusive nature of the renewed Master Procurement Agreement provides no procurement obligation from Tong Ren Tang Group to the Company but offers an alternative source of Relevant Products to support the usual and ordinary procurement business of the Company. Based on the above, we concur with the Directors that the entering into of the renewal of the Master Procurement Agreement is conducted in the ordinary and usual course of the Company's business and are in the interests of both the Company and the Shareholders as a whole.

3.2 Principal terms of the renewed Master Procurement Agreement

Details of the terms of the renewed Master Procurement Agreement are set out in the Letter from the Board, which are summarised as follows:

Date	:	29 September 2025
Parties	:	the Company; and 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 2026 to 31 December 2028.
Principles terms and conditions	:	Pursuant to the renewed Master Procurement Agreement: • The Company agreed that the Group may, from time

		to time, procure the Relevant Products(Note) from members of Tong Ren Tang Group for the purpose of its production, sale and distribution. • Tong Ren Tang Holdings agreed that Tong Ren Tang Group as a non-exclusive supplier of the Group, members of Tong Ren Tang Group may, from time to time, supply the Relevant Products to the Group.
Pricing policies	:	The price to be paid for the Relevant Products procured by the Group from Tong Ren Tang Group shall be determined in accordance with the following principles: • the Relevant Products supplied to the Group must satisfy the Pharmacopoeia of the People's Republic of China (《中華人民共和國藥典》) standard and the internal quality standard of the Company. The Group has maintained a list of qualified suppliers (including Tong Ren Tang Group) which are able to provide the Relevant Products that satisfy the abovementioned standards. For each specific transaction, the Company shall negotiate the detailed terms and conditions of the supply of the Relevant Products with different qualified suppliers (including Tong Ren Tang Group, and at least two independent qualified suppliers in the same or surrounding areas) on a fair competition basis through bidding process, competitive negotiation, business inquiry and/or similar procedures. In the abovementioned price determination procedure, the quality of the Relevant Products and the price provided by different qualified suppliers (including Tong Ren Tang Group) will be compared and determined by the Group; and the prevailing market rate of the Relevant Products will also be taken into consideration. Under the premise of equal quality, the procurement contract shall be granted to the supplier offering most favorable terms; and • The terms and conditions of the renewed Master Procurement Agreement under which Tong Ren Tang Group supplies the Relevant Products to the Group shall not be less favorable than the price or fair market terms offered by any independent third party supplying the same products to the Group (whichever is more favorable).
Payment of the fees	:	For the Relevant Products, payment arrangement will be negotiated by the parties and stated in the specific implementation agreement. Normally, according to the actual payment arrangement, payments will be made by wire transfer or by acceptance bill between 90 to 180 days after the transfer of the ownership of the Relevant Products and the issuance of value-added tax invoices, and shall be the same as the arrangement with other independent third parties.
Implementation	:	During the term of the renewed Master Procurement

Agreement		Agreement, members of the Group and members of Tong Ren Tang Group will enter into, from time to time and as necessary, individual implementation agreement for each of the specific transactions contemplated under the renewed Master Procurement Agreement. Any such implementation agreement shall be subject to the terms and conditions of the renewed Master Procurement Agreement and the relevant annual caps for the continuing connected transaction contemplated thereunder.

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

3.3 Our analysis regarding the terms of the renewed Master Procurement Agreement

We have reviewed and compared the principal terms of the Renewed Master Procurement Agreement with those of the existing Master Procurement Agreement, and noted that there is no material difference in comparison with the existing Master Procurement Agreement.

For the purpose of assessing the fairness and reasonableness of the terms of the Renewed Master Procurement Agreement, we have selected on a random basis, and obtained and reviewed 15 procurement contracts between the Company and Tong Ren Tang Group and 15 procurement contracts between the Company and the independent third parties for FY2023, FY2024 and eight months ended 31 August 2025, relating to the procurement of Relevant Products. Taking into account (a) the similarity of products and period covered under the aforesaid framework procurement contracts; (b) the similarity of the specific procurement agreement covered under the aforesaid framework procurement contracts; (c) the procurement contracts were effective under the period of the Master Procurement Agreement; and (d) a total of 30 sample contracts were selected, obtained and reviewed, we are of the view that the aforesaid samples we have reviewed are fair and representative. Based on our review, we noted that the (i) major terms including the scope of procurement and the pricing policy of the historical transactions with Tong Ren Tang Group is in line with the existing Master Procurement Agreement; (ii) the pricing basis to each procurement contract with Tong Ren Tang Group and independent third parties is the same; and (iii) the terms of the procurement contract with Tong Ren Tang Group are no less favourable than those with independent third parties. We consider the terms of the Renewed Master Procurement Agreement are on normal commercial terms which are fair and reasonable.

To assess the fairness and reasonableness of payment terms of the renewed Master Procurement Agreement, we have reviewed the trade and bills payables balances in the Company's annual report for FY2023, FY2024 and interim report for FY2025, and we also reviewed the corresponding bank payment slips and suppliers' invoices of the 15 selected procurement contracts with Tong Ren Tang Group and 15 selected procurement contracts with the other independent third parties. We are noted that the credit terms and payment method of transactions between the Company and Tong Ren Tang Group are the same as transactions with the other independent third parties, and consistent with the Master Procurement Agreement.

To ensure the fairness and reasonableness of the pricing policies under the Renewed Master Procurement Agreement, we have also: (i) reviewed the unit price, payment terms and delivery method of 15 selected procurement contracts with Tong Ren Tang Group and 15 selected

procurement contracts with independent third parties procurement for FY2023, FY2024 and eight months ended 31 August 2025, and concluded that the prices and terms of procurement from Tong Ren Tang Group are generally no less favourable than independent third parties; (ii) reviewed the Pharmacopoeia of the People's Republic of China (《中華人民共和國藥典》) and the procurement inquiry forms of 14 Relative products, and confirm the procurement quality standards, such as the properties, moisture, and harmful residues of Relative Products of contracts under the Renewed Master Procurement Agreement complies with the government guideline; (iii) reviewed the internal quality standard of the Company and the list of qualified suppliers (including Tong Ren Tang Group) of the Company; and (iv) reviewed the comparison or bidding process among the Company, Tong Ren Tang Group and other independent third parties, and reviewed 14 procurement pricing meeting records for the Relative Products for FY2023, FY2024 and eight months ended 31 August 2025, which indicates the price competition among all suppliers (at least 5 suppliers for each price competition of Relative Product), to confirm that Tong Ren Tang Group offered the most favorable terms to the Company. Based on the above, we are noted that the pricing policies under the Renewed Master Procurement Agreement is fair.

After taking into account (i) there is no material difference between the terms of the Renewed Master Procurement Agreement and the terms of the existing Master Procurement Agreement; and (ii) the pricing policies and other major terms in contracts under the Renewed Master Procurement Agreement with Tong Ren Tang Holdings are no less favorable than similar contracts with independent third parties, we are of the view that the terms of the Renewed Master Procurement Agreement are on normal commercial terms which are fair and reasonable.

3.4 Assessment of the proposed annual caps

Set out below are the annual caps and historical transaction amounts of the existing Master Procurement Agreement for the years or period indicated:

	For the year ended 31 December		**For the eight months ended 31 August (Unaudited)**
	2023	**2024**	**2025**
	(RMB million)	*(RMB million)*	*(RMB million)*
Annual caps	500	550	600
Historical transaction amounts	187.48	122.66	180.31
Utilisation rate	37.50%	22.30%	45.08% *(Note)*

Note: The utilisation rate is calculated by dividing the historical transaction amount for the eight months ended 31 August 2025 by the pro-rated annual cap.

As shown in the above table, the utilisation rate of annual caps under the Master Procurement Agreement for the two years ended 31 December 2024 is quite low. As advised by the management of the Company, such low utilisation rates were primarily attributable to the wide variety of Relevant Products purchased by the Group, and the raw materials in these products being special agricultural products with significant fluctuations in yield, quality and price. When conducting procurement activities, the Group, on the basis of fair competition, negotiates detailed terms and conditions for product supply with suppliers listed in the "List of Qualified Suppliers" (《合格供應商名錄》) (which includes over 200 suppliers including both connected persons and independent third parties) through bidding process, competitive negotiation, business inquiry and/or similar procedures. Under the principle of equal quality, the Group entered into procurement agreements with suppliers offering the best conditions, which could be either connected persons or independent third parties. For the eight months ended 31 August 2025, the annual caps have been moderately utilised.

Set out below is the proposed annual caps under the renewed Master Procurement Agreement

for the three years ending 31 December 2028:

	For the year ending 31 December		
	2026	**2027**	**2028**
	(RMB million)	*(RMB million)*	*(RMB million)*
Annual caps	360	400	450

In view of the low utilisation rates for the two years ended 31 December 2024, to analyze the supply capacity for Related Products of Tong Ren Tang Group, we have reviewed the Company's "List of Qualified Suppliers" (《合格供應商名錄》) and confirmed that Tong Ren Tang Group have always been on the list, by stably providing highly qualified Relative Products for over 20 years. Given that Tong Ren Tang Group has been involved in the field of traditional Chinese medicine raw materials for a long time and has matured in recent years, Tong Ren Tang Group has a more significant supply advantage compared to other suppliers. The raw materials provided by Tong Ren Tang Group better meet the Group's pharmaceutical standards and are easier to trace, thereby better meeting the Group's needs. Therefore, in setting the caps for the next three years, we have good reasons to believe in Tong Ren Tang Group's supply capacity for related products, ensuring that the Group can procure the necessary products from Tong Ren Tang Group in a timely manner, thus safeguarding the Group's daily production needs.

Besides the above analysis about the past utilisation rate, the proposed caps were also determined by reference to (i) the historical transaction amounts; (ii) the upward trend of the increasing transaction amount for procuring the Relevant Products from Tong Ren Tang Group under the Master Procurement Agreement, which reached approximately RMB180.31 million for the eight months ended 31 August 2025, far exceeding the historical transaction amount in 2024; (iii) steadily increasing sales revenue over the past two years by approximately 21% from 2022 to 2024, and the approximately 10% growth in the compound annual growth rate (CAGR) of revenue of the Group from 2022 to 2024; (iv) the increase by 16% and 12% respectively in the Company's total output value and production volume of Chinese patent medicine in 2024, compared to 2022, indicating a higher procurement volume in near future; (v) the renewal of continuing connected transactions between Tong Ren Tang Chinese Medicine, who is the principle subsidiary of the Company, and Tong Ren Tang Ltd dated 20 December 2024, increases the demand for Angong Niuhuang Wan Power (安宮牛黃丸粉), with the amount of HK$65 million, HK$69 million and HK$36 million, respectively for the years ending 31 December 2025 and 31 December 2026 and for the six months ending 30 June 2027; (vi) the significant increase in the price of Chinese medicine raw materials since 2023 based on the Weekly Price-Based Index of Chinese Medicines (中藥材周價格定基指數); and (vii) a buffer of around 5% of the estimated procurement amount of the Relevant Products included for any unexpected increase in the next three years.

The annual caps of transaction value under the renewed Master Procurement Agreement for FY2026 reduce to 360 million by 40% from 600 million in the year ended 31 December 2025 ("**FY2025**"), which is adjusted due to the not high level of utilisation rates during FY2023 to eight months ended in 31 August 2025, and the annual caps increased by approximately 11%-12.5% for each year ended in 31 December 2027 and 31 December 2028. In assessing the fairness and reasonableness of the proposed annual caps above, we have: (i) reviewed the financial performance of the Company through the annual reports, and confirmed that the revenue raised from approximately RMB5,992 million to approximately RMB7,260 million from FY2022 to FY2024, resulting in approximately 10% growth of CAGR of the sales revenue of the Group, and confirmed the increase by 16% and 12% respectively in the Company's total output value and production volume of Chinese patent medicine in 2024, compared to 2022; (ii) reviewed the renewal of the Angong Niuhuang Wan Power (安宮牛黃丸粉) purchase framework agreement between Tong Ren Tang Chinese Medicine, who is the principle subsidiary of the Company, and Tong Ren Tang Ltd

dated 20 December 2024 and 3 out of 6 procurement contracts of the Angong Niuhuang Wan Power (安宮牛黃丸粉) signed in FY2025, thus we are of the view that the agreement was conducted on an ordinary and usual course of business of the Group and expects to continuously bring positive effect on the procurement amount; and (iii) conducted an independent reaeach on the Weekly Price-Based Index of Chinese Medicines (中藥材周價格定基指數) and noted that the weekly unit price index of raw materials which applied on the Company's core products has increased from 208.3 in January 2022 to 237.2 in September 2025, with the peak of 262.0 in November 2024, we conclude that even though the Weekly Price-Based Index of Chinese Medicines (中藥材周價格定基指數) experienced a small reduction in 2025, the index portrayed a general increasing trend from 2022 to 2025, which is expected to lead to a possible increase in the procurement amount. Based on the above, considering (i) the upward trend of the demand of procurement; (ii) the rising price of the raw materials; and (iii) a 5% buffer for each year, an increase by approximately 11%-12.5% in the annual caps per year is regarded as fair and reasonable. Based on the above, we are of the view that the proposed annual caps under the renewed Master Procurement Agreement are fair and reasonable.

3.5 Measures of internal control

As set out in the Letter from the Board, to ensure the Company's conformity with the pricing policies in relation to the continuing connected transactions contemplated under the renewed Master Procurement Agreement, the Company has adopted the following internal control policies for its daily operation:

(a) After renewing the Master Procurement Agreement, the continuing connected transactions contemplated thereunder shall be strictly in compliance with the approved terms and conditions. Specific implementation agreements of the renewed Master Procurement Agreement shall be performed in strict accordance with pricing policies set out in the renewed Master Procurement Agreement. If revision of such terms and conditions is required due to change of actual situation, it is required to re-perform appropriate approval process;

(b) The relevant business departments of the Company will continuously monitor the pricing terms and historical transaction amount of each of the specific implementation agreements relating to the renewed Master Procurement Agreement, the financial department will arrange payment in accordance with the procurement agreement and payment policies, and the audit department of the Company will review the implementation of the relevant transaction management policies of the Company in the assessment of the internal control system every half year, and conduct sampling review of the above information, so as to ensure all transactions under the renewed Master Procurement Agreement conform with the relevant management policies of the Company and ensure the relevant transactions are entered into on normal commercial terms or better and are fair and reasonable, the terms and conditions available to the Group are no less favorable than those available to independent third parties, and such transactions are carried out pursuant to the terms of the renewed Master Procurement Agreement;

(c) The production department of the Company is responsible for regularly monitoring, collecting and evaluating the market data of common raw materials, including but not limited to the prevailing market and the then market price for comparable products in the related industry, and report and approve according to the Company's internal procedures. The Company will also make corresponding adjustments in accordance with the relevant procurement price policies, as may be revised from time to time;

(d) The financial department of the Company is responsible for collecting and totaling the

transaction amounts of the Group's continuing connected transactions on a monthly basis based on the respective transaction amounts reported by the relevant business departments, and is responsible to prepare the summary sheet of the Group's continuing connected transactions. Relevant business departments or financial department, if discover any imminent or possible exceeding of 80% of the annual caps of any continuing connected transactions, shall report as soon as possible to the financial department and the securities affairs department of the Company, the relevant business departments, financial department and securities affairs department of the Company will carry out assessments for adjusting the annual caps based on future business needs. Upon completion of the assessment, if the relevant business departments confirm the necessity to revise the annual caps, they shall make the application regarding the revision of annual caps, including but not limited to the amount and composition of the revised annual caps as well as the basis for adjustment, and then submit the application to the Party Committee and the board of managers of the Company for review and discussion after obtaining the approval of the head of business. The Board or the shareholders' general meeting will finally decide whether to revise the annual caps of relevant continuing connected transactions and proceed with the relevant disclosure procedures. Before completion of all approval and disclosure procedures, the person in charge of the relevant business departments involved in the continuing connected transactions shall ensure that the transaction amounts do not exceed the original annual caps;

(e) The Company will implement, amend and improve the relevant rules and the requirements, and specify that the subsidiaries of the Company comply with the above-mentioned pricing policies in respect of the continuing connected transactions contemplated under the renewed Master Procurement Agreement;

(f) The independent non-executive Directors of the Company have reviewed and will continue to review the continuing connected transactions under the renewed Master Procurement Agreement to ensure all transactions contemplated thereunder are entered into on normal commercial terms or better and are fair and reasonable, the terms and conditions available to the Group are no less favorable than those available to independent third parties, and such transactions are carried out pursuant to the terms of the renewed Master Procurement Agreement; and

(g) The auditors of the Company will also conduct an annual review on the pricing and annual caps of such continuing connected transactions.

We reviewed:(i) the randomly selected 15 procurement contracts between the Company and Tong Ren Tang Holdings, and noticed that the pricing terms and payment terms of specific procurement contracts per FY2023, FY2024 and eight months ended 31 August 2025, which the Company entered into with Tong Ren Tang Group are determined in accordance with the existing Master Procurement Agreement, and these procurement contracts have been approved by the authorized representatives of the members of the Company and affixed with the company stamp; (ii) 3 randomly selected weekly report on price information of Chinese Medicines prepared by the business department and 14 randomly selected procurement pricing meeting records of five Relative Products, which are stamped and signed by the Company authorized representatives, for FY2023, FY2024 and eight months ended 31 August 2025, indicating that the business department continuously monitors the procurement price and the price competition among all suppliers is fair; (iii) 5 out of 5 internal control evaluation reports from FY2023 to six months ended 30 June 2025 to conclude that the Company has half annually reviewed the internal control system, and we found no Material defects and ineffectiveness through the past reports; (iv) confirmation from the independent non-executive directors and the Auditor's letters for FY2023 and FY2024 in respect of continuing connected transactions of the Company, without aware of material abnormality in relation to the

internal control measures on the Company's continuing connected transactions; and (v) 3 randomly selected communication records of the Board of Directors for FY2023 to six months ended 30 June 2025, and we conclude that the Board of the Company has monthly reviewed the historical transaction amount of the connected transactions under the Master Procurement Agreement and also monitored whether the annual limit is exceeded.

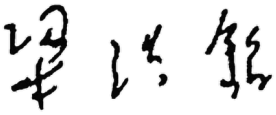
We are of the view that all samples selected above are fair and representative. After reviewing the above, we come to conclude that the internal control measures are effective and can ensure and safeguard that the transactions contemplated under the renewed Master Procurement Agreement will be conducted on normal commercial terms and not prejudicial to the interests of the Company and the minority Shareholders as a whole.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors and reasons, we consider that the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement, and the transactions thereunder are conducted in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned 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 favour of the ordinary resolutions to be proposed at the EGM to approve the renewed Distribution Framework Agreement and the renewed Master Procurement Agreement, and the transactions and their annual caps thereunder.

RAINBOW CAPITAL (HK) LIMITED
滾 博 資 本 有 限 公 司

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited



Danny Leung
Managing Director

Mr. Danny Leung is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the SFO. He has over ten years of experience in the corporate finance industry.