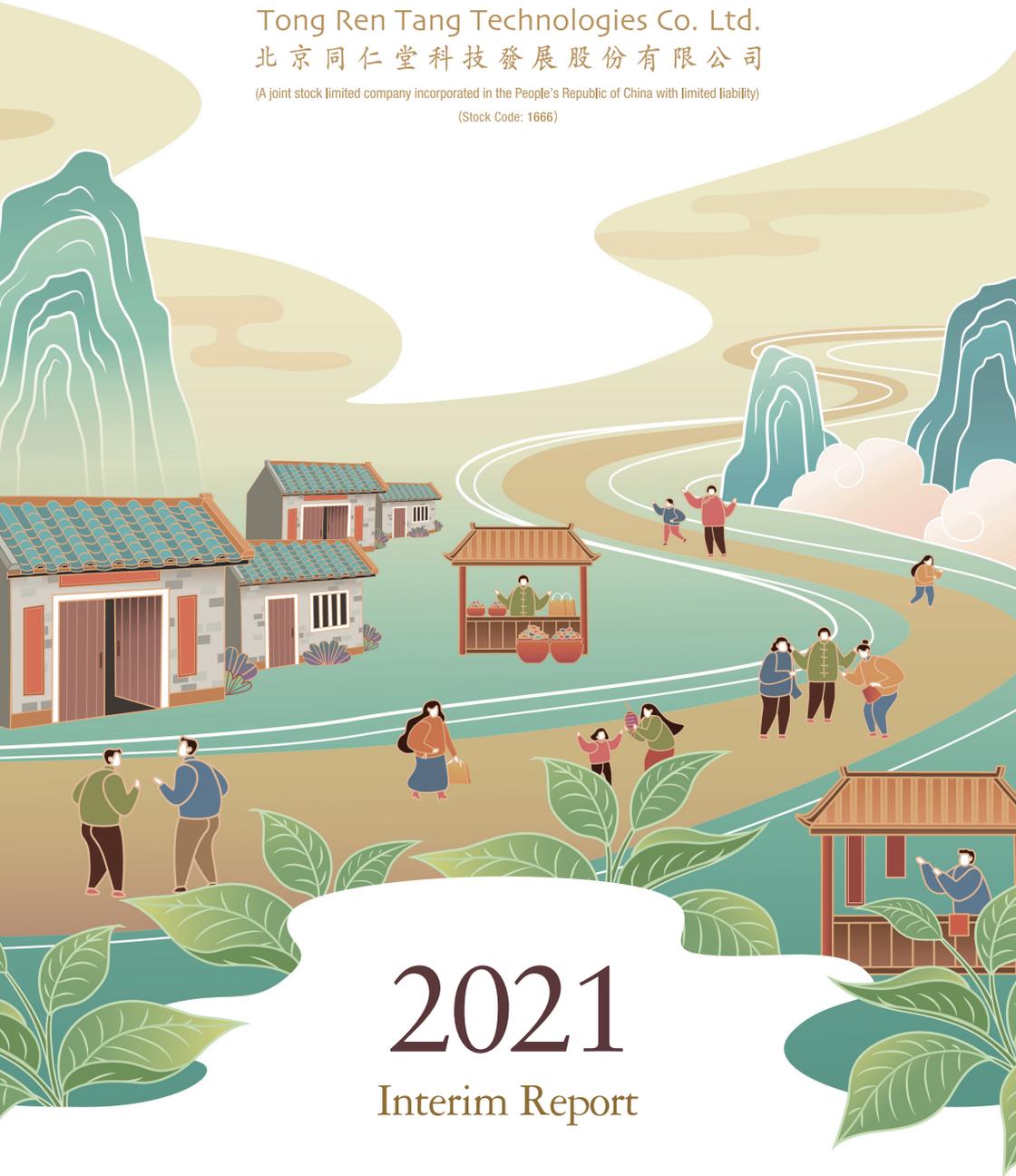




Tong Ren Tang Technologies Co. Ltd.  
北京同仁堂科技發展股份有限公司

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

(Stock Code: 1666)



2021  
Interim Report



## HIGHLIGHTS

- **For the six months ended 30 June 2021, the Group's revenue represents an increase of approximately 23.45% compared to the corresponding period in 2020.**
- **For the six months ended 30 June 2021, profit attributable to owners of the Company represents an increase of approximately 16.13% compared to the corresponding period in 2020.**
- **For the six months ended 30 June 2021, earnings per share attributable to owners of the Company amounted to RMB0.25.**
- **The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2021.**

## INTERIM RESULTS (UNAUDITED)

The board of directors (the “**Board**”) of Tong Ren Tang Technologies Co. Ltd. (the “**Company**”) is pleased to announce the unaudited results of the Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for the six months ended 30 June 2021 (the “**Reporting Period**”) as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		<b>For the six months ended 30 June</b>	
	<i>Note</i>	<b>2021 (Unaudited) RMB'000</b>	2020 (Unaudited) RMB'000
Revenue	6	<b>2,766,118</b>	2,240,661
Cost of sales		<b>(1,517,394)</b>	(1,218,660)
<b>Gross Profit</b>		<b>1,248,724</b>	1,022,001
Distribution expenses		<b>(449,046)</b>	(353,562)
Administrative expenses		<b>(211,350)</b>	(183,947)
Net impairment losses on financial assets		<b>(376)</b>	(7,818)
Other income and gains, net		<b>150</b>	-
<b>Operating profit</b>		<b>588,102</b>	476,674
Finance income	7	<b>14,880</b>	30,902
Finance costs	7	<b>(29,456)</b>	(25,779)
Finance (costs)/income, net	7	<b>(14,576)</b>	5,123
Share of losses of investments accounted for using the equity method		<b>(124)</b>	(944)
<b>Profit before income tax</b>		<b>573,402</b>	480,853
Income tax expense	9	<b>(99,699)</b>	(75,011)
<b>Profit for the period</b>		<b>473,703</b>	405,842
<b>Profit attributable to:</b>			
Owners of the Company		<b>315,461</b>	271,650
Non-controlling interests		<b>158,242</b>	134,192
		<b>473,703</b>	405,842
<b>Earnings per share for profit attributable to owners of the Company during the period</b>			
— Basic and diluted	10	<b>RMB0.25</b>	RMB0.21

CONDENSED CONSOLIDATED STATEMENT OF  
COMPREHENSIVE INCOME (UNAUDITED)

For the six months  
ended 30 June

	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
<b>Profit for the period</b>	<b>473,703</b>	405,842
<b>Other comprehensive (losses)/income</b> <i>Items that may be reclassified to profit or loss</i>		
Foreign currency translation differences		
— Group	<b>(29,927)</b>	45,555
— Joint ventures and associates	<b>(898)</b>	(84)
<i>Items that will not be reclassified to profit or loss</i>		
Change in fair value of financial assets at fair value through other comprehensive income	<b>1,075</b>	(3,755)
<b>Other comprehensive (losses)/income for the period, net of tax</b>	<b>(29,750)</b>	41,716
<b>Total comprehensive income for the period</b>	<b>443,953</b>	447,558
<b>Attributable to:</b>		
Owners of the Company	<b>304,500</b>	287,564
Non-controlling interests	<b>139,453</b>	159,994
<b>Total comprehensive income for the period</b>	<b>443,953</b>	447,558

## CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	<i>Note</i>	<b>30 June 2021 (Unaudited) RMB'000</b>	31 December 2020 (Audited) RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	<b>2,604,190</b>	2,649,350
Right-of-use assets	12	<b>654,586</b>	657,316
Intangible assets		<b>57,800</b>	59,448
Investments accounted for using the equity method		<b>23,568</b>	24,242
Financial assets at fair value through other comprehensive income		<b>6,156</b>	5,140
Prepayments for purchases of non-current assets		<b>47,885</b>	39,935
Deferred income tax assets		<b>58,261</b>	51,883
		<b>3,452,446</b>	3,487,314
<b>Current assets</b>			
Inventories		<b>2,612,297</b>	2,733,332
Trade and bills receivables	13	<b>1,339,411</b>	1,044,856
Other financial assets at amortised cost		<b>31,674</b>	31,918
Prepayments and other current assets		<b>152,499</b>	190,201
Financial assets at fair value through other comprehensive income		<b>180,123</b>	50,824
Short-term bank deposits		<b>21,846</b>	454,395
Cash and cash equivalents		<b>4,404,812</b>	2,947,958
		<b>8,742,662</b>	7,453,484
<b>Total assets</b>		<b>12,195,108</b>	10,940,798

## CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED) (CONT'D)

		<b>30 June 2021 (Unaudited) RMB'000</b>	31 December 2020 (Audited) RMB'000
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	14	<b>1,280,784</b>	1,280,784
Reserves		<b>4,550,340</b>	4,450,765
		<b>5,831,124</b>	5,731,549
<b>Non-controlling interests</b>			
		<b>2,047,874</b>	2,019,956
<b>Total equity</b>			
		<b>7,878,998</b>	7,751,505
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		<b>740,228</b>	483,227
Lease liabilities		<b>98,232</b>	94,895
Deferred income tax liabilities		<b>6,272</b>	5,842
Deferred income — government grants		<b>149,815</b>	150,405
		<b>994,547</b>	734,369
<b>Current liabilities</b>			
Trade and bills payables	15	<b>684,312</b>	717,825
Salary and welfare payables		<b>28,065</b>	52,619
Contract liabilities		<b>6,060</b>	3,142
Current income tax liabilities		<b>56,872</b>	36,225
Other payables		<b>880,399</b>	536,121
Borrowings		<b>1,601,460</b>	1,056,299
Lease liabilities		<b>64,395</b>	52,693
		<b>3,321,563</b>	2,454,924
<b>Total liabilities</b>			
		<b>4,316,110</b>	3,189,293
<b>Total equity and liabilities</b>			
		<b>12,195,108</b>	10,940,798

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	For the six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
<b>Cash flows from operating activities:</b>		
Cash generated from operations	<b>566,705</b>	530,679
Interest paid	<b>(12,056)</b>	(8,347)
Income tax paid	<b>(84,633)</b>	(168,675)
Net cash generated from operating activities	<b>470,016</b>	353,657
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	<b>(91,210)</b>	(193,414)
Purchase of land use rights	-	(186,482)
Purchase of other long-term assets	<b>(10,986)</b>	(2,805)
Prepayments for deposits of land use rights	-	(39,864)
Proceeds from government grants relating to property, plant and equipment	-	9,072
Proceeds from disposals of property, plant and equipment	<b>15</b>	167
Increase in short-term bank deposits	<b>(21,844)</b>	(157,017)
Decrease in short-term bank deposits	<b>454,395</b>	859,454
Proceeds from wealth management products	-	95,518
Increase in wealth management products	-	(63,838)
Dividends received	<b>150</b>	-
Interest received	<b>16,184</b>	34,488
Others	-	441
Net cash generated from investing activities	<b>346,704</b>	355,720
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	<b>1,016,629</b>	200,325
Repayments of borrowings	<b>(209,229)</b>	(8,575)
Capital injection from non-controlling interests	<b>615</b>	29,400
Principal elements of lease payments	<b>(20,484)</b>	(24,194)
Dividends paid to owners of the Company	<b>(8,742)</b>	-
Dividends paid to non-controlling interests	<b>(112,128)</b>	(115,398)
Net cash generated from financing activities	<b>666,661</b>	81,558
Net increase in cash and cash equivalents	<b>1,483,381</b>	790,935
Cash and cash equivalents at beginning of the period	<b>2,947,958</b>	2,990,645
Effects of exchange rate changes on cash and cash equivalents	<b>(26,527)</b>	39,467
<b>Cash and cash equivalents at end of the period</b>	<b>4,404,812</b>	3,821,047

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Unaudited)	Attributable to owners of the Company										Non-	Total
	Share capital	Capital reserve	Statutory surplus	Statutory public	Tax reserve	Foreign	Financial	Other reserve	Retained earnings	Total	controlling interests	equity
			reserve fund	welfare fund		currency translation differences	assets at FVOCI reserve					
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2021	1,280,784	412,245	585,530	45,455	102,043	1,000	(2,604)	156,851	3,150,245	5,731,549	2,019,956	7,751,505
<b>Comprehensive income</b>												
Profit for the period	-	-	-	-	-	-	-	-	315,461	315,461	158,242	473,703
Change in fair value of financial assets at fair value through other comprehensive income ("FVOCI")	-	-	-	-	-	-	409	-	-	409	666	1,075
Foreign currency translation differences												
— Group	-	-	-	-	-	(11,028)	-	-	-	(11,028)	(18,899)	(29,927)
— Joint ventures and associates	-	-	-	-	-	(342)	-	-	-	(342)	(556)	(898)
<b>Transactions with owners in their capacity as owners</b>												
2020 dividends distributed to shareholders of the Company	-	-	-	-	-	-	-	-	(204,925)	(204,925)	-	(204,925)
2020 dividends distributed to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(112,150)	(112,150)
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	-	615	615
Balance as at 30 June 2021	1,280,784	412,245	585,530	45,455	102,043	(10,370)	(2,195)	156,851	3,260,781	5,831,124	2,047,874	7,878,998

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (CONT'D)

(Unaudited)	Attributable to owners of the Company										Non-controlling interests	Total equity
	Share capital	Capital reserve	Statutory surplus reserve fund	Statutory public welfare fund	Tax reserve	Foreign currency translation differences	Financial assets at FVOCI reserve	Other reserve	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance as at 1 January 2020	1,280,784	412,245	547,358	45,455	102,043	57,686	(956)	156,851	2,925,789	5,527,255	1,887,319	7,414,574
<b>Comprehensive income</b>												
Profit for the period	-	-	-	-	-	-	-	-	271,650	271,650	134,192	405,842
Change in fair value of financial assets at FVOCI	-	-	-	-	-	-	(1,429)	-	-	(1,429)	(2,326)	(3,755)
Foreign currency translation differences												
— Group	-	-	-	-	-	17,375	-	-	-	17,375	28,180	45,555
— Joint ventures and associates	-	-	-	-	-	(32)	-	-	-	(32)	(52)	(84)
<b>Transactions with owners in their capacity as owners</b>												
2019 dividends distributed to shareholders of the Company	-	-	-	-	-	-	-	-	(204,925)	(204,925)	-	(204,925)
2019 dividends distributed to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(115,515)	(115,515)
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	-	29,400	29,400
Balance as at 30 June 2020	1,280,784	412,245	547,358	45,455	102,043	75,029	(2,385)	156,851	2,992,514	5,609,894	1,961,198	7,571,092

Notes:

## 1. GENERAL INFORMATION

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 22 March 2000, and was listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 31 October 2000 and transferred from the GEM to the Main Board of the Stock Exchange on 9 July 2010. Its ultimate holding company is China Beijing Tong Ren Tang Group Co., Ltd. (中國北京同仁堂(集團)有限責任公司) ("Tong Ren Tang Holdings"), a company incorporated in Beijing, the PRC.

The address of the Company's registered office is No. 16 Tongji Beilu, Beijing Economic and Technological Development Zone, Beijing, the PRC. The Group is principally engaged in the production and distribution of Chinese medicine and primarily operates in the PRC.

The condensed consolidated interim financial information was approved by the Board to be issued on 18 August 2021.

The condensed consolidated interim financial information has not been audited.

## 2. BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June 2021 has been prepared in accordance with International Accounting Standard (IAS) 34, "Interim financial reporting". The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, the condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2020, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

## 3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2020, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

### 3. ACCOUNTING POLICIES (CONT'D)

#### 3.1 ADOPTION OF NEW STANDARDS AND AMENDMENTS TO STANDARDS

The Group has adopted the following new/revised standards and amendments to standards which are mandatory for the financial year beginning on or after 1 January 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform — Phase 2
Amendments to IFRS 16	Covid-19-related Rent Concessions beyond 30 June 2021

The adoption of above amendment to standards does not have a material impact on these condensed consolidated interim financial information.

#### 3.2 STANDARDS AND AMENDMENTS WHICH ARE NOT YET EFFECTIVE

The following are new standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 January 2022 or later periods, but have not been early adopted by the Group.

Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>(2)</sup>
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>(2)</sup>
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use <sup>(1)</sup>
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract <sup>(1)</sup>
Amendments to IFRS 3 IFRS 17	Reference to the Conceptual Framework <sup>(1)</sup> Insurance Contracts <sup>(2)</sup>
Narrow-scope amendments to IAS 1, IFRS Practice Statement 2 and IAS 8	Disclosure of Accounting Policies and definition of Accounting Estimates <sup>(2)</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>(3)</sup>
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018–2020 <sup>(1)</sup>

<sup>(1)</sup> Effective for the accounting period beginning on or after 1 January 2022

<sup>(2)</sup> Effective for the accounting period beginning on or after 1 January 2023

<sup>(3)</sup> Effective date to be determined

There are no other new standards or amendments to existing standards that are not yet effective and would be expected to have a material impact on these condensed consolidated interim financial information.

#### 4. ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were mostly same as those that applied to the consolidated financial statements for the year ended 31 December 2020.

#### 5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2020.

There have been no significant changes in any risk management policies since year end of 2020.

#### 6. REVENUE

	For the six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Sales of Chinese medicine products		
— Mainland China	<b>2,295,278</b>	1,849,022
— Outside Mainland China	<b>434,530</b>	364,845
	<b>2,729,808</b>	2,213,867
Advertising service income		
— Mainland China	<b>15,668</b>	10,574
Service income		
— Mainland China	<b>2,990</b>	3,839
— Outside Mainland China	<b>17,583</b>	12,308
	<b>20,573</b>	16,147
Royalty fee income		
— Outside Mainland China	<b>69</b>	73
	<b>2,766,118</b>	2,240,661

## 7. FINANCE INCOME AND COSTS

	<b>For the six months ended 30 June</b>	
	<b>2021 (Unaudited) RMB'000</b>	2020 (Unaudited) RMB'000
<b>Finance income</b>		
Interest income	<b>15,453</b>	30,731
Exchange (losses)/gains, net	<b>(573)</b>	171
	<b>14,880</b>	30,902
<b>Finance costs</b>		
Interest on bonds	<b>(12,188)</b>	(12,277)
Interest on bank borrowings	<b>(13,924)</b>	(11,442)
Interest on lease liabilities	<b>(3,344)</b>	(2,060)
	<b>(29,456)</b>	(25,779)
<b>Finance (costs)/income, net</b>	<b>(14,576)</b>	5,123

## 8. EXPENSES BY NATURE

	<b>For the six months ended 30 June</b>	
	<b>2021 (Unaudited) RMB'000</b>	2020 (Unaudited) RMB'000
Depreciation of property, plant and equipment	<b>80,801</b>	77,441
Amortisation of right-of-use assets	<b>37,426</b>	30,899
Amortisation of other long-term assets	<b>4,162</b>	4,590
Provision for impairment of inventories	<b>18,005</b>	10,129
Provision for impairment of receivables	<b>376</b>	7,818
Net losses on disposals of non-current assets	<b>809</b>	597

## 9. INCOME TAX EXPENSE

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, enterprises with a High/New Technology Enterprise ("HNTTE") status are able to enjoy a preferential tax rate of 15%. For the entities without the HNTTE status, the PRC income tax rate is 25%. As of 30 June 2021 and 2020, the Company and certain of its subsidiaries have obtained the HNTTE certificate. Consequently, their applicable income tax rate used as of 30 June 2021 is 15% (corresponding period in 2020: 15%).

Hong Kong profits tax has been provided at the rate of 16.5% (corresponding period in 2020: 16.5%) on the estimated assessable profit for the six months ended 30 June 2021.

Income tax on other countries and regions (excluding Mainland China and Hong Kong) profits has been calculated on the estimated assessable profit for the year at the income tax rates prevailing in the tax jurisdictions in which the Group operates.

	<b>For the six months ended 30 June</b>	
	<b>2021 (Unaudited) RMB'000</b>	<b>2020 (Unaudited) RMB'000</b>
Current income tax expense		
— Mainland China	<b>57,188</b>	35,377
— Hong Kong, China	<b>42,668</b>	41,547
— Other countries and regions (excluding Mainland China and Hong Kong)	<b>5,880</b>	3,205
	<b>105,736</b>	80,129
Deferred income tax credit	<b>(6,037)</b>	(5,118)
	<b>99,699</b>	75,011

## 10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB315,461,000 by the weighted average number of 1,280,784,000 shares in issue during the period.

The Company had no dilutive potential shares for the six months ended 30 June 2021 and 2020.

	For the six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Profit attributable to owners of the Company	<b>315,461</b>	271,650
Weighted average number of ordinary shares in issue (thousands)	<b>1,280,784</b>	1,280,784
Earnings per share	<b>RMB0.25</b>	RMB0.21

## 11. DIVIDENDS

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: Nil).

On 26 March 2021, the Board proposed a cash dividend in respect of the year ended 31 December 2020 of RMB0.16 (including tax) per share based on the total share capital of 1,280,784,000 shares, amounting to a total of RMB204,925,440 which has been approved by the shareholders at the 2020 annual general meeting (the "AGM") of the Company held on 8 June 2021. These dividends have been paid on 5 August 2021.

## 12. ADDITIONS TO RIGHT-OF-USE ASSETS AND ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2021, the additions to right-of-use assets of the Group was RMB36,925,000 (corresponding period in 2020: RMB212,470,000).

For the six months ended 30 June 2021, the additions to property, plant and equipment of the Group was approximately RMB39,462,000 (corresponding period in 2020: RMB431,849,000).

### 13. TRADE AND BILLS RECEIVABLES

	<b>30 June 2021 (Unaudited) RMB'000</b>	31 December 2020 (Audited) RMB'000
Trade receivables		
— third parties	<b>718,395</b>	561,719
— related parties (Note 18(c))	<b>379,274</b>	353,888
	<b>1,097,669</b>	915,607
Bills receivables	<b>310,287</b>	197,432
	<b>1,407,956</b>	1,113,039
Less: provision for impairment	<b>(68,545)</b>	(68,183)
Trade and bills receivables, net	<b>1,339,411</b>	1,044,856

The carrying amounts of trade and bills receivables approximate their fair values.

Retail sales at the Group's stores are usually made in cash or by debit or credit cards. For wholesale to distributors, the Group normally grants a credit period ranging from 30 days to 120 days. As at 30 June 2021 and 31 December 2020, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	<b>30 June 2021 (Unaudited) RMB'000</b>	31 December 2020 (Audited) RMB'000
Within 4 months	<b>1,022,167</b>	831,424
Over 4 months but within 1 year	<b>235,554</b>	128,243
Over 1 year but within 2 years	<b>90,158</b>	81,665
Over 2 years but within 3 years	<b>31,671</b>	42,238
Over 3 years	<b>28,406</b>	29,469
	<b>1,407,956</b>	1,113,039

## 14. SHARE CAPITAL

	30 June 2021 (Unaudited)		31 December 2020 (Audited)	
	Number of shares	Nominal value RMB'000	Number of shares	Nominal value RMB'000
Total share capital	<b>1,280,784,000</b>	<b>1,280,784</b>	1,280,784,000	1,280,784
Issued and fully paid				
— Domestic shares with a par value of RMB1 per share	<b>652,080,000</b>	<b>652,080</b>	652,080,000	652,080
— H shares with a par value of RMB1 per share	<b>628,704,000</b>	<b>628,704</b>	628,704,000	628,704
	<b>1,280,784,000</b>	<b>1,280,784</b>	1,280,784,000	1,280,784

## 15. TRADE AND BILLS PAYABLES

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Trade payables		
— third parties	<b>640,353</b>	588,177
— related parties ( <i>Note 18(c)</i> )	<b>43,959</b>	29,648
	<b>684,312</b>	617,825
Bills payables	—	100,000
Trade and bills payables	<b>684,312</b>	717,825

## 15. TRADE AND BILLS PAYABLES (CONT'D)

As at 30 June 2021 and 31 December 2020, the ageing analysis of trade and bills payables based on invoice date was as follows:

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Within 4 months	621,330	627,718
Over 4 months but within 1 year	57,160	78,971
Over 1 year but within 2 years	1,051	4,956
Over 2 years but within 3 years	42	4,831
Over 3 years	4,729	1,349
	<b>684,312</b>	717,825

Trade payables are unsecured and are usually paid within 120 days of recognition.

The carrying amounts of trade and bills payables are considered to be the same as their fair values, due to their short-term nature.

## 16. SEGMENT INFORMATION

The Board of Directors is the Group's chief operating decision-maker. The Board of Directors has determined the operating segments for the purposes of allocating resources and assessing performance.

The Board of Directors considers the business from an operational entity perspective. Generally, the Board of Directors consider the performance of business of each entity within the Group separately. Thus, each entity within the Group is an operating segment.

The reportable operating segments derive their revenue primarily from: (i) the manufacture and sale of Chinese medicine of the Company in Mainland China ("**The Company**" Segment), and (ii) Beijing Tong Ren Tang Chinese Medicine Company Limited ("**Tong Ren Tang Chinese Medicine**") engaged in manufacturing, retail and wholesale of Chinese medicine products and healthcare products, and provision of Chinese medical consultation and treatments outside Mainland China and wholesale of healthcare products in Mainland China ("**Tong Ren Tang Chinese Medicine**" Segment).

Other companies are engaged in processing and purchasing of Chinese medicinal raw materials, sales of medicinal products, medical services and advertising, etc. They do not form separate reportable segments as they do not meet the quantitative thresholds required by IFRS 8.

The Board of Directors assesses the performance of the operating segments based on revenue and profit after income tax of each segment.

## 16. SEGMENT INFORMATION (CONT'D)

The segment information provided to the Board of Directors for the reportable segments for the six months ended 30 June 2021 is as follows:

(Unaudited)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other Segments RMB'000	Total RMB'000
Segment revenue	1,831,076	587,220	581,839	3,000,135
Inter-segment revenue	(9,608)	-	(224,409)	(234,017)
Revenue from external customers	1,821,468	587,220	357,430	2,766,118
Timing of revenue recognition				
At a point in time	1,821,468	567,500	341,731	2,730,699
Over time	-	19,720	15,699	35,419
	1,821,468	587,220	357,430	2,766,118
Profit/(losses) for the period	247,166	242,245	(15,708)	473,703
Interest income	9,584	2,364	3,505	15,453
Interest expense	(26,966)	(1,841)	(649)	(29,456)
Depreciation of property, plant and equipment	(45,340)	(5,372)	(30,089)	(80,801)
Amortisation of right-of-use assets	(12,324)	(22,026)	(3,076)	(37,426)
Amortisation of other long-term assets	(2,016)	(542)	(1,604)	(4,162)
Provision for impairment of inventories	(18,005)	-	-	(18,005)
(Provision for)/reversal of impairment of receivables	(2,301)	1,091	834	(376)
Share of (losses)/profit of investments accounted for using the equity method	(295)	171	-	(124)
Income tax expense	(46,429)	(47,842)	(5,428)	(99,699)

## 16. SEGMENT INFORMATION (CONT'D)

(Unaudited)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other Segments RMB'000	Total RMB'000
Segment assets and liabilities				
Total assets	<b>6,920,099</b>	<b>2,923,165</b>	<b>2,351,844</b>	<b>12,195,108</b>
Investments accounted for using the equity method	<b>8,997</b>	<b>14,571</b>	-	<b>23,568</b>
Additions to non-current assets <sup>(1)</sup>	<b>9,297</b>	<b>55,338</b>	<b>28,341</b>	<b>92,976</b>
Total liabilities	<b>3,503,229</b>	<b>242,346</b>	<b>570,535</b>	<b>4,316,110</b>

<sup>(1)</sup> Excluding investments accounted for using the equity method, financial instruments and deferred income tax assets.

## 16. SEGMENT INFORMATION (CONT'D)

The segment information provided to the Board of Directors for the reportable segments for the six months ended 30 June 2020 is as follows:

(Unaudited)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other Segments RMB'000	Total RMB'000
Segment revenue	1,573,837	515,465	357,191	2,446,493
Inter-segment revenue	(20,123)	(6,784)	(178,925)	(205,832)
Revenue from external customers	1,553,714	508,681	178,266	2,240,661
Timing of revenue recognition				
At a point in time	1,553,686	493,625	166,931	2,214,242
Over time	28	15,056	11,335	26,419
	1,553,714	508,681	178,266	2,240,661
Profit/(losses) for the period	208,862	214,126	(17,146)	405,842
Interest income	13,797	13,860	3,074	30,731
Interest expense	(22,989)	(1,781)	(1,009)	(25,779)
Depreciation of property, plant and equipment	(40,788)	(6,527)	(30,126)	(77,441)
Amortisation of right-of-use assets	(2,340)	(25,743)	(2,816)	(30,899)
Amortisation of other long-term assets	(1,444)	(800)	(2,346)	(4,590)
Provision for impairment of inventories	(3,877)	-	(6,252)	(10,129)
Provision for of impairment of receivables	(5,689)	(56)	(2,073)	(7,818)
Share of profit/(losses) of investments accounted for using the equity method	266	(1,210)	-	(944)
Income tax expense	(34,891)	(38,461)	(1,659)	(75,011)

## 16. SEGMENT INFORMATION (CONT'D)

The divisional assets and liabilities as for the year ended 31 December 2020 are as follows:

(Audited)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other Segments RMB'000	Total RMB'000
Segment assets and liabilities				
Total assets	5,780,240	2,872,702	2,287,856	10,940,798
Investments accounted for using the equity method	9,293	14,949	–	24,242
Additions to non-current assets <sup>(1)</sup>	687,732	58,170	149,238	895,140
Total liabilities	2,423,474	228,452	537,367	3,189,293

<sup>(1)</sup> Excluding investments accounted for using the equity method, financial instruments and deferred income tax assets.

Sales between segments are carried out at arm's length. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the income statement.

The amounts provided to the Board of Directors with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Revenues from external customers are derived from the sales of medicine and provision of services. The breakdown of sales of medicine by region is provided in Note 6.

The total of the non-current assets other than financial instruments and deferred income tax assets located in Mainland China is RMB2,982,544,000 (31 December 2020: RMB3,045,147,000), and the total of these non-current assets located in other countries and regions is RMB405,485,000 (31 December 2020: RMB385,144,000).

## 16. SEGMENT INFORMATION (CONT'D)

During the six months ended 30 June 2021 and 2020, revenue from 2 customers each accounted for ten percent or more of the Group's total external revenue. These revenues are mainly attributable to The Company Segment and Tong Ren Tang Chinese Medicine Segment. The revenues from these customers are summarised below:

	For the six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Entities under control of ultimate holding company	837,072	632,541
Customer A group	371,312	338,508
	<b>1,208,384</b>	971,049

## 17. COMMITMENTS

### (A) CAPITAL COMMITMENTS

As of 30 June 2021, the Group had capital commitments of RMB133,236,000 which were contracted but not provided for in the unaudited condensed consolidated interim financial information of the Group (31 December 2020: RMB43,208,000).

### (B) OPERATING LEASE COMMITMENTS

The Group leases various warehouses and factory premises under non-cancellable operating leases.

As of 30 June 2021, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases as set out below.

	30 June 2021 (Unaudited) RMB'000	31 December 2020 (Audited) RMB'000
Not later than one year	11,800	5,792

## 18. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

Related parties include the ultimate holding company and its subsidiaries, other entities and corporations in which the Company is able to control or exercise significant influence in making financial and operating decisions and key management personnel of the Company as well as their close family members.

During the Reporting Period, the Group had the following material transactions with related parties, which were entered into at terms mutually agreed with these related parties in the ordinary course of business.

### (A) TRANSACTIONS WITH THE ULTIMATE HOLDING COMPANY

Transactions with the ultimate holding company during the Reporting Period are summarised as follows:

	For the six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Trademark license fee (Note (i))	1,800	1,750
Property leasing expense (Note (ii))	–	6,415
Additions to right-of-use assets (Note (ii))	–	163
Interest on lease liabilities		
— Property, plant and equipment (Note (ii))	537	83
— Land use right (Note (iii))	791	–

## 18. RELATED PARTY TRANSACTIONS (CONT'D)

### (A) TRANSACTIONS WITH THE ULTIMATE HOLDING COMPANY (CONT'D)

Notes:

- (i) A licence agreement was entered on 28 February 2018 between the Company and the ultimate holding company whereby the Company is allowed to use certain trademarks and trademark logos (collectively, "Trademarks") of the ultimate holding company. The licence agreement is effective from 1 March 2018 to 31 March 2021. In case of the extension of the agreement, the Company can apply three months prior to the expiration of the licence and renew the licence agreement with the ultimate holding company. The annual licence agreement fee is RMB3,000,000 in 2018, with an annual increase of RMB300,000 thereafter.

On 26 March 2021, the Company renewed the licence agreement with the ultimate holding company, for a term of 6 months from 1 April 2021 to 30 September 2021.

- (ii) On 30 December 2019, the Company renewed the property leasing framework agreement with the ultimate holding company, pursuant to which, the ultimate holding company has agreed to lease and procure its other members to lease certain premises to the Group for its productions and operations, including but not limited to office premises, warehouses and staff quarter, for a term of three years from 1 January 2020 to 31 December 2022. The continuing connected transactions under the Property Leasing Framework Agreement was entered into in accordance with the pricing policies below: (1) The relevant market price. (2) Where the market price is not available, then the contracted price, which shall be determined after arm's length negotiation between the parties of the agreement based on the principle of cost plus a fair and reasonable profit ratio and by reference to the historical rentals. The reasonable cost shall be determined by reference to the size of the premises provided by the ultimate holding company, and the cost of premises management

- (iii) A land use right leasing agreement (the "Old Agreement") dated 6 October 2000 was entered into between the Company and the ultimate holding company. Pursuant to the agreement, the total area leased to the Company is approximately 49,776.35 sq.m. The land is located in Beijing, the PRC, with a lease period of 20 years commencing from 6 October 2000. The annual rental is calculated at a rate of RMB53.95 per sq.m. Any adjustments to the annual rental shall be made at the market rent, provided that such adjustment shall not exceed 10% of that of the previous year. On 1 January 2006, an amendment was made to reduce the total area of the land leased to 43,815.15 sq.m, the remaining clauses on the Old Agreement still remain effective.

On 26 March 2021, a land use right leasing agreement was entered into between the Company and the ultimate holding company. Pursuant to the agreement, the total area leased to the Company is approximately 43,812.95 sq.m. The land is located in Beijing, the PRC, with a lease period of 5 years commencing from 6 October 2020. The annual rental expense is about RMB8,373,000.

## 18. RELATED PARTY TRANSACTIONS (CONT'D)

### (B) TRANSACTIONS WITH THE SUBSIDIARIES AND JOINT VENTURES OF THE ULTIMATE HOLDING COMPANY

	For the six months ended 30 June	
	2021 (Unaudited) RMB'000	2020 (Unaudited) RMB'000
Sales of Chinese medicine related products (Note (i))	<b>822,357</b>	621,997
Purchases of Chinese medicine related products (Note (ii))	<b>64,274</b>	50,917
Purchases of products for exclusive distributorship (Note (iii))	<b>5,700</b>	25,688
Advertising services income (Note (iv))	<b>14,715</b>	10,544
Property leasing expense (Note (a)(ii))	<b>2,031</b>	2,211
Interest on lease liabilities (Note (a)(ii))	<b>142</b>	–

Notes:

- (i) On 16 October 2019, the Company renewed the distribution framework agreement with the ultimate holding company. Pursuant to the renewed agreement, the price of the products to be sold by the Group to the ultimate holding company's subsidiaries and joint ventures 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: (1) 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 (2) the profit margin shall be determined by reference to the prevailing market and the then market price for comparable products in the related industry, and the average gross profit rate of the products of the Group in the past years (approximately 50%). The renewed agreement was approved at the extraordinary general meeting of the Company on 16 December 2019 and for a term of three years from 1 January 2020 to 30 December 2022.
- (ii) On 16 October 2019, the Company renewed the master procurement agreement with the ultimate holding company. Pursuant to the agreement, the subsidiaries and joint ventures of the ultimate holding company can supply to the Group the products that are required for the Group's production, sale and distribution. The price procured by the Group from the ultimate holding company's subsidiaries and joint ventures shall be negotiated by the parties on an arm's length basis. The ultimate holding company shall not supply the products to the Group (1) provided that the products satisfy the pharmacopoeia of the PRC standard and the internal quality standard of the Company, and under the premise of equal quality, the price shall be negotiated and agreed by the parties based on the market price for procurement with fair market competition and public offer, which shall be determined with reference to the prevailing market price of comparable products negotiated and provided by at least two independent suppliers in the same or surrounding areas; (2) if the products are only available from specific suppliers due to content, special requirement or market resource limitations, reference shall be made to the price offer of suppliers and book comparable price; and (3) under the premise of equal quality, the price to be paid by the Group for the procurement of the products shall not be higher than that available from independent third parties for similar products, or higher than the market price, whichever is the lower. The renewed agreement was approved at the extraordinary general meeting of the Company on 16 December 2019 and for a term of three years from 1 January 2020 to 31 December 2022.

## 18. RELATED PARTY TRANSACTIONS (CONT'D)

### (B) TRANSACTIONS WITH THE SUBSIDIARIES AND JOINT VENTURES OF THE ULTIMATE HOLDING COMPANY (CONT'D)

Notes (Cont'd):

- (iii) Tong Ren Tang Chinese Medicine renewed an exclusive distributorship frame-work agreement with Beijing Tong Ren Tang Company Limited ("**Tong Ren Tang Ltd.**") on 8 November 2017, with an effective period from 1 January 2018 to 31 December 2020, pursuant to which, Beijing Tong Ren Tang International Natural-Pharm Co., Ltd., a wholly-owned subsidiary of Tong Ren Tang Chinese Medicine, is appointed as the sole overseas distributor of the Tong Ren Tang Ltd., for the purpose of the distribution of the relevant Tong Ren Tang branded products supplied by Tong Ren Tang Ltd. ("**Relevant Products**") outside the PRC. The price of the Relevant Products supplied shall not be higher than the wholesale price of the Relevant Products sold to the wholesale customers in the PRC and shall be determined with reference to the then prevailing market price. The renewed agreement has been approved by the extraordinary general meeting of Tong Ren Tang Chinese Medicine on 1 December 2017.

Tong Ren Tang Chinese Medicine renewed the agreement with Tong Ren Tang Ltd. with similar pricing policies on 6 November 2020, with an effective period from 1 January 2021 to 31 December 2023. The renewed agreement has been approved by the extraordinary general meeting of Tong Ren Tang Chinese Medicine on 17 December 2020.

- (iv) On 28 February 2020, Beijing Tong Ren Tang Century Advertising Co., Limited ("**Tong Ren Tang Century Advertising**") renewed the advertising agency framework agreement with the ultimate holding company for a term of three years from 1 January 2020 to 31 December 2022. Accordingly, the fees for the provision of specific services by Tong Ren Tang Century Advertising to the ultimate holding company or its subsidiaries and joint ventures under individual implementation agreement shall be determined with reference to the actual quotation offered by third-party advertising providers on the basis of their published price lists, plus a reasonable fee for the advertising agency service provided by Tong Ren Tang Century Advertising (generally not higher than 10% of the quote offered by third-party advertising providers).

## 18. RELATED PARTY TRANSACTIONS (CONT'D)

### (C) BALANCES WITH RELATED PARTIES

Balances with related parties consisted of:

	<b>30 June 2021 (Unaudited) RMB'000</b>	31 December 2020 (Audited) RMB'000
<b>Amounts due from related parties (Note (i)):</b>		
Subsidiaries and joint ventures of the ultimate holding company		
Trade receivables	<b>371,318</b>	345,133
Other financial assets at amortised cost	<b>1,289</b>	818
Prepayments	<b>815</b>	1,046
	<b>373,422</b>	346,997
<b>Amounts due to related parties (Note (i)):</b>		
Subsidiaries and joint ventures of the ultimate holding company		
Trade payables	<b>43,959</b>	29,648
Other payables	<b>15,744</b>	24,745
	<b>59,703</b>	54,393
<b>Lease liabilities</b>		
Ultimate holding company and its subsidiaries (Note (a)(ii)), (Note (a)(iii))	<b>63,239</b>	62,807
<b>Borrowings from a related party (Note (ii)):</b>		
Ultimate holding company	<b>32,000</b>	32,000

Notes:

- (i) The amounts due from/to related parties are unsecured, interest-free and recoverable or repayable within twelve months.
- (ii) Borrowings from a related party are in the form of entrusted loans which are unsecured, bear interest by reference to benchmark lending interest rate published by the People's Bank of China with moderate decrease and repayable within one year.

## 19. EVENTS OCCURRING AFTER THE REPORTING PERIOD

The bonds matured on 30 July 2021. The Company has paid the bonds principal and the last annual interest for the period from 31 July 2020 to 30 July 2021 on 2 August 2021, amounting to a total of RMB834,800,000.

## INTERIM DIVIDEND

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2021 (corresponding period in 2020: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

2021 is the starting year of the “14th Five-Year Plan” of the Group. Premised upon the normalization of epidemic prevention and control, the Group has always insisted on the working principals of “finding weakness, setting goals, focusing on supporting facilities, ensuring implementation, deepening reforms, expanding fields and promoting development” and focused on large-varieties as the main development strategy while seizing opportunities and precisely focusing on specific targets. The Group achieved steady growth for overall revenue and profit. For the six months ended 30 June 2021, the Group’s sales revenue amounted to RMB2,766,118,000, representing an increase of 23.45% compared to RMB2,240,661,000 for the corresponding period last year; the Group’s net profit amounted to RMB473,703,000, representing an increase of 16.72% compared to RMB405,842,000 for the corresponding period last year; and net profit attributable to owners of the Company amounted to RMB315,461,000, representing an increase of 16.13% compared to RMB271,650,000 for the corresponding period last year.

During the Reporting Period, the Group effectively exerted the political and leading core roles of the Party Committee, firmly seized the main line of coordinating epidemic prevention and control as well as production and operation, actively participated in the work of epidemic prevention and control, strictly implemented the main responsibility of the epidemic prevention and control, and continued to strengthen promotion of the epidemic prevention and control knowledge, emphasized on vaccination work, built epidemic prevention barriers to ensure the health and safety of all employees and lay a solid foundation for the normal development of production and operation.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### BUSINESS REVIEW (CONT'D)

At the beginning of 2021, affected by the rebound of the epidemic, the Company faced difficulties in aspects such as production personnel to resume work and production, material supply security, logistics and transportation. However, the production units of the Group timely adjusted production plans according to the development of the epidemic with satisfaction of market demand as the core goal, and timely adjusted product supply strategy, reasonably adjusted structure of varieties, enhanced process connection and Beijing-Hebei collaboration and orderly carried out production, which effectively guaranteed supply of products in accordance with market demand. During the Reporting Period, the Company fully exerted the production capacity advantages of each production unit and accelerated the release of production capacity. During the first half of the year, the overall output and output value of proprietary Chinese medicines increased compared to the corresponding period last year. In the first half of the year, the Daxing branch factory added varieties of Yangxue Rongjin Pills, and Guji Pills. Currently, there are ten types of products that can be produced. The overall output and output value of the Daxing branch factory in the first half of the year also achieved substantial growth compared to the corresponding period of the year. Located in Yutian County, Tangshan City, Hebei Province, Beijing Tong Ren Tang Technologies Development (Tangshan) Co., Limited. ("**Tong Ren Tang Technologies Tangshan**") successfully completed the variety transfer of Liuwei Dihuang Soft Capsule and Yishen Wufa Oral Liquid in the first half of the year. Currently, there are eight types of products that can be produced. In addition, Tong Ren Tang Technologies Tangshan fully utilized its advantages in production capacity of traditional Chinese medicine extraction and liquid preparations. The overall output and output value increased and the extraction volume also increased by more than 20% compared to the corresponding period last year, efficiently utilizing the advantages in production capacity and supporting role of new factory and new equipment.

During the first half of 2021, the Company consolidated sales characteristics of different channels and explored the potential of varieties. Combined with the needs for different disease types and health management and according to the principle of "treatment of chronic disease, treatment of foreseeable disease, pediatric drugs, non-medicine, Tong Ren Tang special medicine," the Company sorted out and classified varieties, with a focus on "kidney disease, heart and brain disease, tonic, lung nourishing, anti-cancer, and pediatric drugs" series products, actively implemented the large-varieties strategy, enhanced channel promotion and market deepening of large-varieties, which improved sales performance. The Company strived to boost product sales with the help of the theme promotion activities such as "Empowering the terminal to achieve a win-win situation and step into Tong Ren Tang", "Caring for family, caring for health-Tong Ren Tang is in action" and other theme promotion activities.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### BUSINESS REVIEW (CONT'D)

During the Reporting Period, product lines of the Group with single-product sales amount of more than RMB5 million increased by one compared to corresponding period last year. The Company achieved single-product sales amount of more than RMB100 million for 6 product lines, RMB10 million to RMB100 million for 23 product lines, and RMB5 million to RMB10 million for 13 product lines. During the Reporting Period, sales amount increased for our major products such as series of Jinkui Shenqi Pills, Niu Huang Jiedu Tablets and Xihuang Pills, due to the large-variety strategy and series of promotion activities from the first half of year compared to the corresponding period last year, in which series of Jinkui Shenqi Pills increased by 17.69% in sales amount compared to the corresponding period last year; series of Niu Huang Jiedu Tablets increased by 52.90% in sales amount compared to the corresponding period last year; series of Xihuang Pills increased by 17.46% in sales amount compared to the corresponding period last year; series of Ganmao Qingre Granules increased by 11.02% in sales amount compared to the corresponding period last year. Meanwhile, in order to eliminate product stock, the Company continued to increase the development of the distribution market and end market for Ejiao series products, which drove its sales amount to increase compared to the corresponding period last year. The sales amount of series of Liuwei Dihuang Pills and series of Shengmai Liquor decreased by 14.00% and 14.89% compared to the corresponding period last year, respectively, due to sufficient products for end market.

At the same time, the Company continued to improve the construction of the variety group in line with market demand. The newly introduced variety Xiaochaihu granules has been launched, and the sales amount of products with potential such as Zhuangyao Jianshen Pills, Qiju Dihuang Pills and Fangfeng Tongsheng Pills also increased relatively compared to the corresponding period last year. In addition, the company continued to drive the research and development of innovative products, and conducted research on the craftsmanship of a number of "Classic Prescription" such as Danggui Buxue Decoction, with a view to further expanding the Company's product range in the future.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### BUSINESS REVIEW (CONT'D)

Tong Ren Tang Chinese Medicine, a key subsidiary of the Company, served as the overseas development platform of the Group. It is primarily engaged in manufacturing, retail and wholesale of Chinese medicine products overseas. During the Reporting Period, while facing complex and ever-changing domestic and international environment imposed by the epidemic, Tong Ren Tang Chinese Medicine continued to uphold the corporate spirit of “Nurturing kindness and virtue, Preserving tranquility and wellness,” and enhanced its supply capacity, adaptability and recovery ability pertaining to the market, rapidly changed their market expansion model, consolidated the advantageous market position of the flagship products, and continuously innovated the retail models to explore the latest revolutionary development opportunities during the crisis. During the Reporting Period, Tong Ren Tang Chinese Medicine focused on the key products of Angong Niu Huang Pills and Sporoderm-broken Ganoderma Lucidum Spores Powder Capsule, developed a large-variety plan and strengthened the promotion efforts through online and offline media by placing advertisements of Tong Ren Tang’s cardiovascular and cerebrovascular product series through television, printed media and online media platforms, as well as consolidating the characteristics of large-variety products, where it delivered health information to consumers so that more people were aware of Tong Ren Tang’s brand, and increased the market share of their products. As of 30 June 2021, the sales revenue of Tong Ren Tang Chinese Medicine and its subsidiaries was RMB587,220,000, representing an increase of 13.92% compared to the corresponding period last year; net profit attributable to owners of Tong Ren Tang Chinese Medicine amounted to RMB222,673,000, representing an increase of 8.35% compared to the corresponding period last year.

Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited (“**Tong Ren Tang WM**”) has been devoted to the combination of natural herbal plants and modernization of Chinese medicines and the application thereof, whose main products are masks, creams and daily chemical products. During the Reporting Period, the original minority shareholder of Tong Ren Tang WM signed an equity transfer agreement which transferred 40% equity interest to Tong Ren Tang Chinese Medicine. In the first half of the year, the Company and Tong Ren Tang WM re-appointed the management team of Tong Ren Tang WM, which further enhanced the management of the subsidiaries of the Company. In terms of sales, Tong Ren Tang WM continued to improve the simultaneous development and expansion of online and offline channels, divided online and offline channels resources of varieties, actively explored underwriting cooperation method of “variety + channel,” and achieved double-digit growth for the leading product series freckle cream. Within the year, China has further strengthened the supervision and management of cosmetics, and implemented the “Regulations on Supervision and Administration of Cosmetics,” which brought new opportunities and challenges to Tong Ren Tang WM. As a result, for the purpose of compliance with the new regulation and the large-variety strategy, Tong Ren Tang WM reorganized its leading varieties and varieties with potential, orderly carried out the evaluation and filing of cosmetics efficacy to ensure the legal and compliant operations of Tong Ren Tang WM.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### BUSINESS REVIEW (CONT'D)

Beijing Tong Ren Tang Second Traditional Chinese Medicine Hospital Co., Ltd. ("**Tong Ren Tang Second Traditional Chinese Medicine Hospital**") and Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited ("**Nansanhuan Zhonglu Drugstore**") are wholly-owned medical institution and retail pharmacy of the Company, respectively. The two companies adhere to serving customers with kindness. As consumers' awareness of self-medication, family medicine and health care continue to elevate, the need for health further diversified. During the Reporting Period, Nansanhuan Zhonglu Drugstore further enriched the variety of Chinese herbal medicines, Chinese and Western patent medicines, medical equipment, health-care food to fulfill the consumption needs of different consumer demographics. As a hospital, Tong Ren Tang Second Traditional Chinese Medicine Hospital always adhered to the principle of normalization of epidemic prevention and control, actively implemented epidemic prevention and control and strived to create a safe medical environment. Meanwhile, it added moxibustion, water tank treatment and other non-drug based traditional Chinese medicine treatment projects and utilized traditional Chinese medicine ointment therapy and the combination of massage and drug therapy to treat and prevent diseases to fulfill the needs of majority of its patients. For the first half of the year, the number of outpatient visits in Tong Ren Tang Second Traditional Chinese Medicine Hospital was around 0.13 million, representing an increase of around 45% compared to the corresponding period last year, gradually reaching the pre-epidemic level.

Based in authentic medicinal material production regions, the six subsidiaries that are engaged in material manufacturing take full advantages of local herbs and mainly provide some of traditional Chinese medicine materials for the Company. For the first half of the year, the six subsidiaries that are engaged in material manufacturing used poria, schizonepeta and other varieties as pilot projects, they actively carried out construction of the traceable system of traditional Chinese medicinal materials and installed traceability monitoring equipment of traditional Chinese medicinal materials. With the help of Internet of Things technology, they collected air temperature, humidity, soil moisture and other information of the production area of traditional Chinese medicinal materials to fulfill standardized planting, management and traceability of medicinal materials in accordance with planting varieties, regions and characteristics of climate, carried out quality supervision and guidance on key planting links, field management links and finished products inspection links of traditional Chinese medicinal materials, strictly controlled key quality control points, and further guaranteed products quality. At the same time, through joint planting method according to the actual needs of the Company, three plant varieties including forsythia, plantago and raspberry were added during the Reporting Period. Currently, they can provide more than 20 medicinal materials including cortex moutan, schizonepeta, bunge's corydalis and Radix isatidis for the Company, further enriching planted varieties and enriching the supply of the fine medicinal materials.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2021, the Group had a total of 3,877 employees (31 December 2020: 3,882 employees), of which 1,920 were employees of the Company (31 December 2020: 1,950 employees). The Company continually updates and improves its employee remuneration policy and system to ensure an equal access to value and sharing of result according to employees' contribution. In the meantime, the Company attaches great importance to the development and growth of talents, and provides employees with skill training, career planning and development opportunities, seeking to create a platform for mutual growth between the Company and employees.

Remunerations of the employees of the Company are determined with reference to the prevailing market level as well as the competency, qualifications and experience of individual employee. Discretionary bonuses based on individual annual performance are paid to employees as rewards for their contributions to the Company. Other employee benefits include the Company's contributions to pension, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing fund.

### FINANCIAL REVIEW

#### Liquidity and Financial Resources

The Group has maintained a sound financial position. During the Reporting Period, the Group's primary source of funds was cash generated from daily operating activities and borrowings.

The Group mainly uses Renminbi and Hong Kong dollars ("**HKD**") to make borrowings and loans and to hold cash and cash equivalents.

As at 30 June 2021, the Group's cash and cash equivalents amounted to RMB4,404,812,000 (31 December 2020: RMB2,947,958,000) in total.

As at 30 June 2021, the Group's short-term borrowings amounted to RMB775,300,000 (31 December 2020: RMB235,000,000), carrying an interest rate of 3.216% (2020: 1.354%) per annum. Non-current bank borrowing and corporate bonds amounted to RMB826,160,000 (31 December 2020: RMB821,299,000) in total, accounting for 37.10% (31 December 2020: 33.12%) of the total liabilities. Long-term borrowings amounted to RMB740,228,000 (31 December 2020: RMB483,227,000), carrying an annual interest rate of long-term bank borrowings at 3.442% (2020: 3.412%). The long-term borrowings represented 17.15% (31 December 2020: 15.15%) of the total liabilities. Of all the borrowings of the Group as at 30 June 2021, RMB1,601,460,000 will mature within one year and RMB740,228,000 will mature after one year.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### FINANCIAL REVIEW (CONT'D)

#### Capital Structure

The Group's capital management policy is to ensure the continuous operations of the Group with an aim to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

As at 30 June 2021, total assets of the Group amounted to RMB12,195,108,000 (31 December 2020: RMB10,940,798,000). The funds of the Group comprised non-current liabilities of RMB994,547,000 (31 December 2020: RMB734,369,000), current liabilities of RMB3,321,563,000 (31 December 2020: RMB2,454,924,000), equity attributable to owners of the Company of RMB5,831,124,000 (31 December 2020: RMB5,731,549,000) and non-controlling interests of RMB2,047,874,000 (31 December 2020: RMB2,019,956,000).

During the Reporting Period, the Group's funds were mainly used for production and operation activities, construction projects, purchase of property, plant and equipment, repayment of borrowings and payment of cash dividends, etc.

#### Liquidity

As at 30 June 2021, the Group's liquidity ratio (the ratio of current assets to current liabilities) was 2.63 (31 December 2020: 3.04), reflecting that the Group had sufficient financial resources. The Group's quick ratio (the ratio of liquid assets to current liabilities) was 1.80 (31 December 2020: 1.85), reflecting that the Group remained liquid. The Group's trade receivables turnover ratio (the ratio of revenue to the average of trade receivables balance) was 5.90 (31 December 2020: 5.59), reflecting that the Group's trade receivables were relatively liquid. The Group's trade payables turnover ratio (the ratio of cost of sales to the average of trade payables balance) was 4.66 (31 December 2020: 4.06), reflecting that the Group had a relatively strong ability to use funding from suppliers at nil consideration. The Group's inventory turnover ratio (the ratio of revenue to the average of inventory balance) was 2.07 (31 December 2020: 1.82), reflecting that the inventory had a high turnover rate.

#### Gearing Ratio

The Group monitors its capital on the basis of the gearing ratio. As at 30 June 2021, the Group's gearing ratio (the ratio of total borrowings to equity attributable to owners of the Company) was 0.40 (31 December 2020: 0.27).

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### FINANCIAL REVIEW (CONT'D)

#### Expenses and Expense Ratio

As of 30 June 2021, the Group's distribution expenses amounted to RMB449,046,000 (30 June 2020: RMB353,562,000) and the distribution expense ratio, i.e. the ratio of distribution expenses to revenue, was 0.16 (30 June 2020: 0.16). The distribution expenses have no significant changes compared to the corresponding period last year and the revenue margin is reasonable.

As of 30 June 2021, the Group's administrative expenses amounted to RMB211,350,000 (30 June 2020: RMB183,947,000) and the administrative expense ratio, i.e. the ratio of administrative expenses to revenue, was 0.08 (30 June 2020: 0.08). The administrative expenses have no significant changes compared to the corresponding period last year and the revenue margin is reasonable.

As of 30 June 2021, the Group's net finance costs amounted to RMB14,576,000 (30 June 2020: net financial income amounted to RMB5,123,000) and the financial costs ratio, i.e. the ratio of financial costs to revenue, was 0.0053 (30 June 2020: ratio of finance income to revenue: 0.002). The increase in financial costs was mainly due to the decrease in interest income.

#### Gross Margin and Net Profit Margin

As of 30 June 2021, the gross margin of the Group was 45.14% (30 June 2020: 45.61%), while the net profit margin was 17.13% (30 June 2020: 18.11%).

#### Research and Development Expenses

As of 30 June 2021, the research and development expenses (excluding employee benefit expense, depreciation and amortisation expense) of the Group were RMB13,688,000 (30 June 2020: RMB20,128,000), accounting for 0.17% of net assets (30 June 2020: 0.27%) and 0.49% of revenue (30 June 2020: 0.90%), respectively. The research and development expenses including employee benefit expense and depreciation and amortisation expense were RMB26,590,000 (30 June 2020: RMB31,555,000), accounting for 0.34% of net assets (30 June 2020: 0.42%) and 0.96% of revenue (30 June 2020: 1.41%), respectively.

#### Capital Expenditure

As of 30 June 2021, the Group's capital expenditure incurred amounted to RMB102 million (30 June 2020: RMB383 million), primarily used for the purchase of equipment.

#### Pledges over Assets of the Group

As at 30 June 2021, RMB9,053,000 (31 December 2020: RMB9,472,000) of the Group's assets was pledged as security for long-term borrowing of RMB48,000 (31 December 2020: RMB49,000).

#### Contingent Liabilities

As at 30 June 2021, the Group had no contingent liabilities (31 December 2020: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### FINANCIAL REVIEW (CONT'D)

#### **Foreign Exchange Risk**

The Group primarily operates in the PRC which is settled in Renminbi. However, the Group also operates internationally and foreign exchange risk arises from commercial transactions, recognised assets and liabilities and net investments in foreign operations (primarily with respect to HKD). The Group currently does not have a foreign currency hedging policy. The Group manages its foreign exchange risk by closely monitoring the movement of the foreign currency rates.

#### **Significant Investment Held**

During the Reporting Period, the Group did not have any significant investment. As at the date of this report, the Group does not have any plan for material investments or purchase of capital assets.

#### **Material Acquisition/Disposal of Subsidiaries, Joint Ventures and Associates**

During the Reporting Period, the Group did not have any material acquisition/disposal of subsidiaries, joint ventures or associates.

### FUTURE PROSPECTS

In the future, the external environment such as the global epidemic situation and inflation expectations will remain complex and severe, and the market environment of the Chinese medicine industry will still face intense competition pressure. However, China has made clear efforts to develop the traditional Chinese medicine, to adhere to the equal emphasis on traditional Chinese medicine and western medicine, and to combine inheritance and innovation to give full play to the unique role of traditional Chinese medicine in medical and health care. At the same time, China is actively responding to the aging of the population and further optimizing the birth policies, and etc., which will also bring new development opportunities for the traditional Chinese medicine industry.

In the second half of the year, the Group will continue to take the "Double Assessment of Party Building and Operation" as the starting point, build the cornerstone of "Party Building, Quality, and Honesty", make overall plans and implement specific policies, and work hard in various production operations under normalization of epidemic prevention and control. The Group will also strengthen the combination of supervision and control while coordinating and advancing various key tasks, continuously improve the level of governance and governance capabilities, and continue to promote the high-quality development of the Group.

At the same time, we will firmly seize the opportunities brought about by China's support of healthy development of Chinese medicine and the economic recovery in the consumer sector. We will take market demand as the guidance, keep up with the changes of market, continue to insist on the large-variety strategy as the main production and operation philosophy. We will focus on the main business, and clarify the thoughts, as well as making precise efforts to ensure the implementation of the annual indicators and have a solid start for the "14th Five-Year Plan."

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### OTHER INFORMATION

#### Corporate Governance Code

During the Reporting Period, the Company had complied with the code provisions contained in the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). None of the Directors is aware of any information that would reasonably suggest that the Company was not in compliance with the provisions in the Corporate Governance Code for any time during the above-mentioned period.

#### Directors' and Supervisors' Dealings in Securities

The Company has adopted a code of conduct regarding securities transactions by the Directors and the supervisors of the Company (the "**Supervisors**") on terms no less exacting than the required standard contained in the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific enquiries of all the Directors and Supervisors, all of them confirmed that they had strictly complied with the required standard set out in the Model Code and the code of conduct of the Company during the Reporting Period.

#### Change in Directors and Supervisors

Following the approval by the Shareholders at the AGM, with effect from 8 June 2021, (i) each of Mr. Gu Hai Ou, Mr. Wang Yu Wei and Ms. Fang Jia Zhi has been appointed as an executive director of the Eighth Session of the Board; each of Mr. Jin Tao, Mr. Ma Guan Yu and Ms. Wu Qian has been appointed as a non-executive director of the Eighth Session of the Board; and (ii) each of Mr. Ting Leung Huel, Stephen, Ms. Chan Ching Har, Eliza, and Mr. Zhan Yuan Jing has been appointed as an independent non-executive director of the Eighth Session of the Board.

Following the approval by the Shareholders at the AGM, the Board is pleased to announce that, with effect from 8 June 2021, each of Ms. Su Li and Mr. Wu Yi Gang has been appointed as a supervisor of the Eighth Session of the Supervisory Committee. In addition, following the approval of the employee representatives' general meeting of the Company held on 20 April 2021, Mr. Li Yuan Hong has been appointed as an employee representative supervisor of the Eighth Session of the Supervisory Committee at the employee representative's leaders' joint meeting, with effect from 8 June 2021.

With effect from 18 August 2021, Ms. Chan Ching Har, Eliza, an independent non-executive director, has been appointed as a member of the remuneration committee of the Company (the "**Remuneration Committee**"), and Mr. Gu Hai Ou, an executive director, is no longer a member of the Remuneration Committee.

For details of the aforesaid changes, please refer to the circular of the Company dated 30 April 2021, the announcement of the Company dated 8 June 2021 and the announcement of the Company dated 18 August 2021.

Save as the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### OTHER INFORMATION (CONT'D)

#### **Risk Management and Internal Control**

The Board is responsible for evaluating and determining the nature and extent of the risks that the Company is willing to take in achieving its strategic goals, ensuring that the Company has established and maintained appropriate and effective risk management and internal control systems, and overseeing management in the design, implementation and monitoring of the risk management and internal control systems. The Company has established its risk management and internal control system and issued relevant reports with reference to certain documents, including the Basic Standard for Corporate Internal Control, the Guidelines for Corporate Internal Control Assessment and the Internal Control Evaluation Manual.

The terms of reference of the audit committee of the Company (the "**Audit Committee**") covers risk management responsibilities, including supervision of relevant risk management system to make sure that the system conforms to the strategies and risk tolerance of the Company. Meanwhile, the responsibilities of the Company's risk management are set up in the Company's legal affairs department (brand risk control department). They continuously regulate the operation of the risk management system to standardize and normalize risk management. Through regularly identifying risks, evaluation, addressing and monitoring the operation of the risk management process, to address with identified risks, and issue a risk management report every six months and submit it to the Audit Committee for review.

The Company has established its internal audit function. The dedicated internal audit department conducts regular and independent reviews on the operation of each of the department of the Group, thereby identifying any non-compliance activities and risks, and makes relevant recommendations to address the identified risks. In addition, it explains any material findings as well as the process and results of internal audit to the Audit Committee in separate reports. During the Reporting Period, the Company further deepened its work effort regarding risk management, internal control and self-inspection and timely proposed improvement suggestions and countermeasures to minimize operational risks.

#### **Audit Committee**

The Audit Committee has reviewed the operating results, financial position and major accounting policies in the unaudited financial statements of the Group for the six months ended 30 June 2021 and discussed relevant internal audit, risk management and internal control matters.

#### **Directors', Supervisors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures**

As at 30 June 2021, none of the Directors, Supervisors and the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong, the "**SFO**") which were required to be recorded in the register kept under Section 352 of the SFO or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the requirements in the Model Code as set out in Appendix 10 to the Listing Rules.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### OTHER INFORMATION (CONT'D)

#### Substantial Shareholders

As at 30 June 2021, as was known to the Directors, Supervisors and the chief executive of the Company, the following persons (other than the Directors, Supervisors and the chief executive of the Company) had interests and 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:

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered share capital
Tong Ren Tang Ltd.	Beneficial Owner	600,000,000 (L) <sup>(Note 1)</sup>	92.01%	–	46.85%
Tong Ren Tang Holdings <sup>(Note 2)</sup>	Interest of controlled corporation by the substantial shareholder	600,000,000 (L) <sup>(Note 1)</sup>	92.01%	–	46.85%
	Beneficial Owner	9,480,000 (L) <sup>(Note 1)</sup>	1.45%	–	0.74%
	Beneficial Owner	11,630,000 (L) <sup>(Note 1)</sup>	–	1.85%	0.91%
Total		621,110,000 (L) <sup>(Note 1)</sup>	93.46%	1.85%	48.49%
Yuan Sai Nan <sup>(Note 3)</sup>	Beneficial Owner	35,732,000 (L) <sup>(Note 1)</sup>	–	5.68%	2.79%
Hillhouse Capital Advisors, Ltd. <sup>(Note 5)</sup>	Investment manager	47,663,000 (L) <sup>(Note 1)</sup>	–	7.58%	3.72%
Citigroup Inc. <sup>(Note 6)</sup>	Interest of corporation controlled by the substantial shareholder,	37,037,195 (L) <sup>(Note 1)</sup>	–	5.89%	2.89%
	Person having a security interest in shares,	3,048,359 (S) <sup>(Note 1)</sup>	–	0.48%	0.24%
	Custodian corporation/ approved lending agent	19,725,825 (P) <sup>(Note 1)</sup>	–	3.13%	1.54%

Notes:

- (1) (L) — Long position (S) — Short position (P) —Lending Pool
- (2) 600,000,000 shares held by Tong Ren Tang Holdings were held through Tong Ren Tang Ltd. As at 30 June 2021, Tong Ren Tang Ltd. was owned as to 52.45% by Tong Ren Tang Holdings. Thus, Tong Ren Tang Holdings was deemed to be interested in the 600,000,000 shares held by Tong Ren Tang Ltd. Besides, Tong Ren Tang Holdings also directly held 9,480,000 domestic shares and 11,630,000 H shares of the Company.
- (3) Yuan Sai Nan held 35,732,000 H shares of the Company in long position.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### OTHER INFORMATION (CONT'D)

#### Substantial Shareholders (Cont'd)

Notes: (Cont'd)

- (4) Due to an internal reorganisation, the investment manager for both Gaoling Fund, L.P. and YHG Investment, L.P. changed from Hillhouse Capital Management, Ltd. to Hillhouse Capital Advisors, Ltd., effective from 1 January 2019. There above changes was no transfer of shares of the Company. As at 30 June 2021, Hillhouse Capital Advisors, Ltd. was indirectly interested in 46,106,000 H shares of the Company in long position indirectly held by Gaoling Fund, L.P. and 1,557,000 H shares of the Company in long position held by YHG Investment, L.P.
- (5) Citigroup Inc. indirectly held 3,049,729 H shares of the Company in long position and 3,048,359 H shares of the Company in short position through a series of entities under its control, held 14,261,641 H shares of the Company in long position as a person holding security interest in shares, and held 19,725,825 H shares in long position of the Company as custodian corporation/approved lending agent.

Save as disclosed above, the Directors were not aware of any other person (other than the Directors, Supervisors and the chief executive of the Company) who had interests and 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 at 30 June 2021.

#### Purchase, Sale or Redemption of the Company's Listed Securities

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

### COMPETING INTERESTS

#### Competition with Tong Ren Tang Ltd. and Tong Ren Tang Holdings

Both the Company and Tong Ren Tang Ltd. engage in the production and sale of Chinese patent medicines, but the principal products of each of them are different. Tong Ren Tang Ltd. mainly produces Chinese patent medicines in traditional dosage forms such as honeyed pills, powder, ointment and medicinal wines. Tong Ren Tang Ltd.'s main products include Angong Niuhuang Pills (安宮牛黃丸), Tongren Niuhuang Qingxin Pills (同仁牛黃清心丸), Tongren Dahuoluo Pills (同仁堂大活絡丸), Tongren Wuji Baifeng Pills (同仁烏雞白鳳丸), and Guogong Wine (國公酒). It also has some minor production lines for the production of granules and water-honeyed pills. These products do not compete with the Group's products in terms of their curative effects. The Company focuses on manufacturing products in new dosage forms which are more competitive compared to western medicine. The Company's main products include Liuwei Dihuang Pills (六味地黃丸), Niuhuang Jiedu Tablets (牛黃解毒片), Ganmao Qingre Granules (感冒清熱顆粒), Jinkui Shenqi Pills (金匱腎氣丸), etc. Tong Ren Tang Holdings is an investment holding company.

To ensure that the business delineation among the Company, Tong Ren Tang Holdings and Tong Ren Tang Ltd. is properly documented and established, Tong Ren Tang Holdings and Tong Ren Tang Ltd. undertake, pursuant to an undertaking dated 19 October 2000 from Tong Ren Tang Holdings and Tong Ren Tang Ltd. in favor of the Company ("**October Undertaking**"), that other than Angong Niuhuang Pills (安宮牛黃丸), Tong Ren Tang Holdings, Tong Ren Tang Ltd. and their respective subsidiaries will not produce in future any products that bear the same names or bear the same names with different dosage forms as those pharmaceutical products produced by the Company, which may compete directly with those pharmaceutical products of the Company.

Save as mentioned above, the Directors confirm that none of the products of the Company is in direct competition with the products of Tong Ren Tang Ltd. or Tong Ren Tang Holdings.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

### COMPETING INTERESTS (CONT'D)

#### **Right of First Refusal**

To procure that the Company focuses on the development of the four major forms of products (namely granules, honeyed pills, tablets and soft capsules), Tong Ren Tang Holdings and Tong Ren Tang Ltd. have granted the Company, pursuant to the October Undertaking, a right of first refusal to manufacture and sell any of the new products which is developed by Tong Ren Tang Holdings, Tong Ren Tang Ltd. or any of their respective subsidiaries and which belongs to one of the four main forms of existing products of the Company. Upon the exercise of the right of first refusal, both Tong Ren Tang Ltd. and Tong Ren Tang Holdings or their respective subsidiaries are not allowed to manufacture any of such new products. In the event that the Company develops any new product based on the existing products of Tong Ren Tang Holdings, Tong Ren Tang Ltd. or their respective subsidiaries, and such new product is one of the major forms of the Company, the Company will be entitled to manufacture such new product and Tong Ren Tang Holdings, Tong Ren Tang Ltd. and their respective subsidiaries will not be allowed to manufacture such new product. The Directors believe that the above undertakings would clarify that both Tong Ren Tang Ltd. and Tong Ren Tang Holdings would support the Company in its development of the four major forms of products in the future.

In the event that the Company refuses the right of first refusal offered by Tong Ren Tang Ltd. or Tong Ren Tang Holdings, the terms of the option to be offered to an independent third party should not be more favorable than those originally offered to the Company, failing which the Company should be given an opportunity to re-consider the option under the new terms. The above undertakings would no longer be valid in the event that the direct or indirect aggregate shareholdings of Tong Ren Tang Holdings and Tong Ren Tang Ltd. in the Company fall below 30%.

Moreover, Tong Ren Tang Holdings and Tong Ren Tang Ltd. confirm that the Company and its independent non-executive Directors will implement the following undertakings:

- (i) the independent non-executive Directors will review, at least on an annual basis, the compliance with the options, pre-emptive rights or rights of first refusal provided by Tong Ren Tang Ltd. and Tong Ren Tang Holdings on their existing or future competing business;
- (ii) Tong Ren Tang Ltd. and Tong Ren Tang Holdings have undertaken to provide all information necessary for the annual review by the independent non-executive Directors and the enforcement of the non-competition undertaking;
- (iii) the Company will disclose decisions on matters reviewed by independent non-executive Directors in relation to the compliance and enforcement of the undertaking (e.g. the exercise of options or rights of first refusal) either through the annual report, or by way of announcements to the public; and
- (iv) an annual declaration by Tong Ren Tang Ltd. and Tong Ren Tang Holdings on compliance with the non-competition undertaking in the annual report of the Company.