



Tong Ren Tang Technologies Co. Ltd.

北京同仁堂科技发展股份有限公司

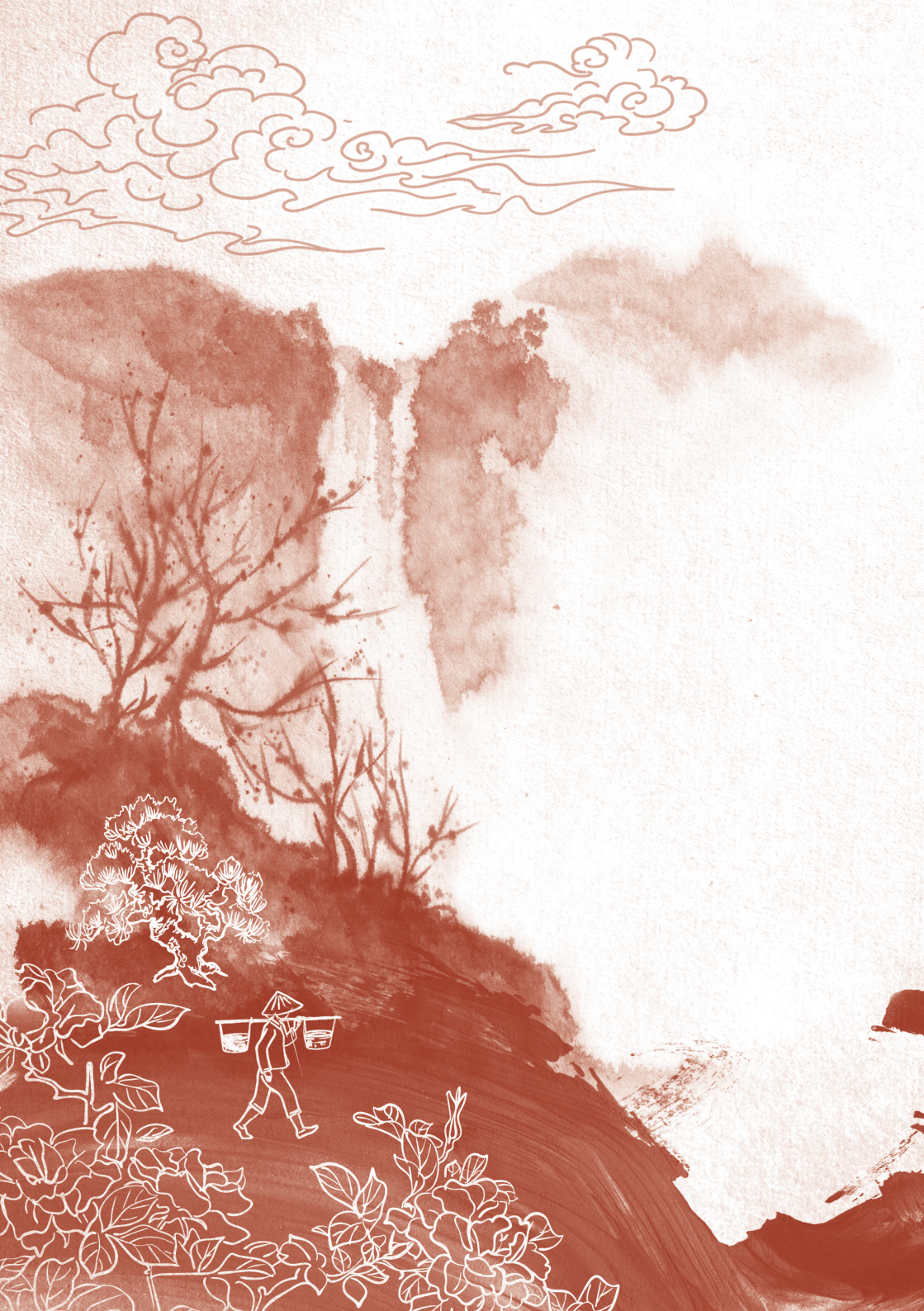
(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1666)



2020

INTERIM REPORT



HIGHLIGHTS

- **For the six months ended 30 June 2020, the Group's revenue represents a decrease of approximately 9.45% as compared with the corresponding period in 2019.**
- **For the six months ended 30 June 2020, profit attributable to owners of the Company represents a decrease of approximately 29.00% as compared with the corresponding period in 2019.**
- **For the six months ended 30 June 2020, earnings per share attributable to owners of the Company amounted to RMB0.21.**
- **The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2020.**

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 2020 (the “**Reporting Period**”) as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		For the six months ended 30 June	
	<i>Note</i>	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Revenue	6	2,240,661	2,474,627
Cost of sales		(1,218,660)	(1,189,777)
Gross Profit		1,022,001	1,284,850
Distribution expenses		(353,562)	(406,961)
Administrative expenses		(183,947)	(181,965)
Net impairment losses on financial assets		(7,818)	(5,898)
Operating profit		476,674	690,026
Finance income	7	30,902	24,768
Finance costs	7	(25,779)	(9,885)
Finance income, net	7	5,123	14,883
Share of losses of investments accounted for using the equity method		(944)	(315)
Other income and gains, net		-	425
Profit before income tax		480,853	705,019
Income tax expense	9	(75,011)	(116,778)
Profit for the period		405,842	588,241
Profit attributable to:			
Owners of the Company		271,650	382,631
Non-controlling interests		134,192	205,610
		405,842	588,241
Earnings per share for profit attributable to owners of the Company during the period — Basic and diluted	10	RMB0.21	RMB0.30

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months
ended 30 June

	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Profit for the period	405,842	588,241
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Foreign currency translation differences		
— Group	45,555	14,271
— Joint ventures and associates	(84)	241
<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	(3,755)	(1,826)
Other comprehensive income for the period, net of tax	41,716	12,686
Total comprehensive income for the period	447,558	600,927
Attributable to:		
Owners of the Company	287,564	388,029
Non-controlling interests	159,994	212,898
Total comprehensive income for the period	447,558	600,927

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	2,657,022	2,301,261
Right-of-use assets	12	584,185	403,999
Intangible assets		66,375	66,152
Investments accounted for using the equity method		24,650	25,678
Financial assets at fair value through other comprehensive income		6,250	9,839
Prepayments for purchases of non-current assets		80,937	41,973
Deferred income tax assets		46,066	40,771
		3,465,485	2,889,673
Current assets			
Inventories		2,560,185	2,321,784
Trade and bills receivables	13	692,178	961,680
Amounts due from related parties	18(d)	281,333	254,279
Other financial assets at amortised cost		36,431	25,755
Prepayments and other current assets		188,954	107,709
Financial assets at fair value through profit or loss		-	31,680
Financial assets at fair value through other comprehensive income		67,072	27,311
Short-term bank deposits		157,017	859,454
Cash and cash equivalents		3,821,047	2,990,645
		7,804,217	7,580,297
Total assets		11,269,702	10,469,970

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

Note	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	1,280,784	1,280,784
Reserves	4,329,110	4,246,471
	5,609,894	5,527,255
Non-controlling interests	1,961,198	1,887,319
Total equity	7,571,092	7,414,574
LIABILITIES		
Non-current liabilities		
Borrowings	1,211,215	1,223,571
Lease liabilities	60,724	59,649
Deferred income tax liabilities	6,119	6,022
Deferred income — government grants	90,283	76,492
	1,368,341	1,365,734
Current liabilities		
Trade and bills payables	710,789	630,693
Salary and welfare payables	69,994	63,283
Contract liabilities	2,676	1,934
Amounts due to related parties	554,584	100,549
Current income tax liabilities	44,113	132,600
Other payables	571,322	580,083
Borrowings	339,201	140,198
Lease liabilities	37,590	40,322
	2,330,269	1,689,662
Total liabilities	3,698,610	3,055,396
Total equity and liabilities	11,269,702	10,469,970

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months
ended 30 June

	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Cash flows from operating activities:		
Cash generated from operations	530,679	658,790
Interest paid	(8,347)	(7,143)
Income tax paid	(168,675)	(61,873)
Net cash generated from operating activities	353,657	589,774
Cash flows from investing activities:		
Purchase of property, plant and equipment	(193,414)	(131,776)
Purchase of land use rights	(186,482)	(18,910)
Purchase of other long-term assets	(2,805)	(239)
Prepayments for deposits of land use rights	(39,864)	(44,650)
Proceeds from government grants relating to property, plant and equipment	9,072	–
Proceeds from disposals of property, plant and equipment	167	102
Proceeds from disposals of other long-term assets	–	46
Net decrease/(increase) in short-term bank deposits	702,437	(215,760)
Proceeds from wealth management products	95,518	92,430
Increase in wealth management products	(63,838)	(94,780)
Interest received	34,488	14,658
Others	441	425
Net cash generated from/(used in) investing activities	355,720	(398,454)
Cash flows from financing activities:		
Proceeds from borrowings	200,325	1,000
Repayments of borrowings	(8,575)	(135,571)
Capital injection from non-controlling interests	29,400	42,630
Principal elements of lease payments	(24,194)	(22,830)
Dividends paid to shareholders of the Company	–	(9,435)
Dividends paid to non-controlling interests	(115,398)	(120,723)
Net cash generated from/(used in) financing activities	81,558	(244,929)
Net increase/(decrease) in cash and cash equivalents	790,935	(53,609)
Cash and cash equivalents at beginning of the period	2,990,645	1,904,036
Exchange gains on cash and cash equivalents	39,467	14,156
Cash and cash equivalents at end of the period	3,821,047	1,864,583

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

(Unaudited)	Attributable to owners of the Company										Non-controlling interests	Total equity
	Share capital	Capital reserve	Statutory surplus	Statutory public	Tax reserve	Foreign currency translation differences	Financial assets at FVOCI reserve	Other reserve	Retained earnings	Total		
			fund	welfare fund								
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 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
Comprehensive income												
Profit for the period	-	-	-	-	-	-	-	-	271,650	271,650	134,192	405,842
Change in fair value of financial assets at fair value through other comprehensive income ("FVOCI")	-	-	-	-	-	-	(1,429)	-	-	(1,429)	(2,326)	(3,755)
Foreign currency translation differences	-	-	-	-	-	17,375	-	-	-	17,375	28,180	45,555
— Group	-	-	-	-	-	(32)	-	-	-	(32)	(52)	(84)
— Joint ventures and associates	-	-	-	-	-	-	-	-	-	-	-	-
Transactions with owners in their capacity as owners												
2019 dividends paid to shareholders of the Company	-	-	-	-	-	-	-	-	(204,925)	(204,925)	-	(204,925)
2019 dividends paid 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

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

(Unaudited)	Attributable to owners of the Company									Non-	Total	
	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	controlling interests	equity
	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 2019	1,280,784	412,245	492,112	45,455	102,043	32,690	546	156,851	2,793,926	5,316,652	1,960,197	7,276,849
Comprehensive income												
Profit for the period	-	-	-	-	-	-	-	-	382,631	382,631	205,610	588,241
Change in fair value of financial assets at FVOCI	-	-	-	-	-	-	(695)	-	-	(695)	(1,131)	(1,826)
Foreign currency translation differences												
— Group	-	-	-	-	-	6,001	-	-	-	6,001	8,270	14,271
— Joint ventures and associates	-	-	-	-	-	92	-	-	-	92	149	241
Transactions with owners in their capacity as owners												
2018 dividends paid to shareholders of the Company	-	-	-	-	-	-	-	-	(230,541)	(230,541)	-	(230,541)
2018 dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(129,463)	(129,463)
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	-	42,630	42,630
Balance as at 30 June 2019	1,280,784	412,245	492,112	45,455	102,043	38,783	(149)	156,851	2,946,016	5,474,140	2,086,262	7,560,402

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 27 August 2020.

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 2020 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 2019, 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 2019, 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 2020:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 7, IAS 39 and IFRS 9	Interest Rate Benchmark Reform
Amendments to IFRS 16	COVID-19-Related Rent Concessions ⁽¹⁾
Conceptual Framework for Financial Reporting	Revised Conceptual Framework for Financial Reporting

⁽¹⁾ Effective for the accounting period beginning on or after 1 June 2020

The adoption of above amendments 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 ⁽¹⁾
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use ⁽²⁾
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract ⁽²⁾
Amendments to IFRS 3 IFRS 17	Reference to the Conceptual Framework ⁽²⁾ Insurance Contracts ⁽³⁾
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽⁴⁾
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018–2020 ⁽²⁾

⁽¹⁾ Effective for the accounting period beginning on or after 1 January 2022 (possibly deferred to 1 January 2023)

⁽²⁾ Effective for the accounting period beginning on or after 1 January 2022

⁽³⁾ Originally effective for the accounting period beginning on or after 1 January 2021, but extended to 1 January 2023

⁽⁴⁾ 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 2019.

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 2019.

There have been no significant changes in any risk management policies since year end of 2019.

6. REVENUE

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Sales of Chinese medicine products		
— Mainland China	1,849,022	1,873,762
— Outside Mainland China	364,845	556,888
Advertising service income	2,213,867	2,430,650
— Mainland China	10,574	19,611
Service income		
— Mainland China	3,839	2,459
— Outside Mainland China	12,308	21,432
Royalty fee income	16,147	23,891
— Outside Mainland China	73	475
	2,240,661	2,474,627

7. FINANCE INCOME AND COSTS

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Finance income		
Interest income	30,731	24,374
Exchange gains, net	171	394
	30,902	24,768
Finance costs		
Interest on bonds	(12,277)	(12,024)
Interest on bank borrowings	(11,442)	(4,890)
Interest on lease liabilities	(2,060)	(2,029)
Less: amounts capitalised on qualifying assets	-	9,058
	(25,779)	(9,885)
Finance income, net	5,123	14,883

8. EXPENSES BY NATURE

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Depreciation of property, plant and equipment	77,441	35,132
Amortisation of right-of-use assets	30,899	25,279
Amortisation of other long-term assets	4,590	5,566
Provision for impairment of inventories	10,129	10,592
Provision for impairment of receivables	7,818	5,898
Net loss on disposals of non-current assets	597	1,098

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 (“HNT E”) status are able to enjoy a preferential tax rate of 15%. For the entities without the HNT E status, the PRC income tax rate is 25%. As of 30 June 2020 and 2019, the Company and certain of its subsidiaries have obtained or expect to continue to obtain the HNT E certificate. Consequently, their applicable income tax rate used as of 30 June 2020 is 15% (corresponding period in 2019: 15%).

Hong Kong Special Administrative Region of the PRC (“Hong Kong”) profits tax has been provided at the rate of 16.5% (corresponding period in 2019: 16.5%) on the estimated assessable profit for the six months ended 30 June 2020.

Income tax on overseas profits has been calculated on the estimated assessable profit for the Reporting Period at the income tax rates prevailing in the tax jurisdictions in which the Group operates.

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Current income tax expense		
— Mainland China	35,377	56,128
— Hong Kong	41,547	55,070
— Overseas (excluding Hong Kong)	3,205	2,094
	80,129	113,292
Deferred income tax (credit)/charge	(5,118)	3,486
	75,011	116,778

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB271,650,000 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 2020 and 2019.

	For the six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Profit attributable to owners of the Company	271,650	382,631
Weighted average number of ordinary shares in issue (thousands)	1,280,784	1,280,784
Earnings per share	RMB0.21	RMB0.30

11. DIVIDENDS

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: Nil).

On 30 March 2020, the Board proposed a cash dividend in respect of the year ended 31 December 2019 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 2019 annual general meeting (the "AGM") of the Company held on 18 June 2020. These dividends have been paid on 17 August 2020.

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

For the six months ended 30 June 2020, the additions to right-of-use assets of the Group was RMB212,470,000 (corresponding period in 2019: RMB36,534,000).

For the six months ended 30 June 2020, the additions to property, plant and equipment of the Group was approximately RMB431,849,000 (corresponding period in 2019: RMB124,480,000).

13. TRADE AND BILLS RECEIVABLES

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Trade receivables	583,943	608,481
Bills receivables	152,758	392,398
	736,701	1,000,879
Less: provision for impairment	(44,523)	(39,199)
Trade and bills receivables, net	692,178	961,680

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 2020 and 31 December 2019, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 4 months	550,676	777,601
Over 4 months but within 1 year	83,421	120,628
Over 1 year but within 2 years	41,990	66,053
Over 2 years but within 3 years	46,423	27,677
Over 3 years	14,191	8,920
	736,701	1,000,879

14. SHARE CAPITAL

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	Number of shares	Nominal value RMB'000	Number of shares	Nominal value RMB'000
Total share capital	1,280,784,000	1,280,784	1,280,784,000	1,280,784
Issued and fully paid				
— Domestic shares with a par value of RMB1 per share	652,080,000	652,080	652,080,000	652,080
— H shares with a par value of RMB1 per share	628,704,000	628,704	628,704,000	628,704
	1,280,784,000	1,280,784	1,280,784,000	1,280,784

15. TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables based on invoice date was as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 4 months	597,405	490,012
Over 4 months but within 1 year	92,351	87,107
Over 1 year but within 2 years	19,239	30,415
Over 2 years but within 3 years	863	22,197
Over 3 years	931	962
	710,789	630,693

16. SEGMENT INFORMATION

The Directors of the Company in the Board (the “**Directors**”) are the Group’s chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Directors for the purposes of allocating resources and assessing performance.

The Directors consider the business from an operational entity perspective. Generally, the 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 Directors assess 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 Directors for the reportable segments for the six months ended 30 June 2020 is as follows:

(Unaudited)	Tong Ren			Total RMB'000
	The Company RMB'000	Tang Chinese Medicine RMB'000	All other Segments 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 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)
Segment assets and liabilities				
Total assets	6,263,611	2,886,117	2,119,974	11,269,702
Investments accounted for using the equity method	9,332	15,318	-	24,650
Additions to non-current assets ¹	596,060	29,493	61,008	686,561
Total liabilities	2,981,874	325,768	390,968	3,698,610

¹ Excluding investments accounted for using the equity method, financial instruments and deferred income tax assets.

16. SEGMENT INFORMATION (CONT'D)

The segment information for the six months ended 30 June 2019 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	1,628,715	711,617	385,018	2,725,350
Inter-segment revenue	(64,310)	–	(186,413)	(250,723)
Revenue from external customers	1,564,405	711,617	198,605	2,474,627
Timing of revenue recognition				
At a point in time	1,564,405	687,252	178,993	2,430,650
Over time	–	24,365	19,612	43,977
	1,564,405	711,617	198,605	2,474,627
Profit for the period	260,664	320,154	7,423	588,241
Interest income	4,480	18,772	1,122	24,374
Interest expense	(5,494)	(1,766)	(2,625)	(9,885)
Depreciation of property, plant and equipment	(15,691)	(8,093)	(11,348)	(35,132)
Amortisation of right-of-use assets	(1,960)	(20,521)	(2,798)	(25,279)
Amortisation of other long-term assets	(787)	(3,653)	(1,126)	(5,566)
Provision for impairment of inventories	(10,337)	(255)	–	(10,592)
(Provision for)/reversal of impairment of receivables	(7,166)	–	1,268	(5,898)
Share of profit/(losses) of investments accounted for using the equity method	246	(561)	–	(315)
Income tax expense	(48,558)	(62,588)	(5,632)	(116,778)

16. SEGMENT INFORMATION (CONT'D)

The divisional assets and liabilities as for the year ended 31 December 2019 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	5,545,840	2,812,631	2,111,499	10,469,970
Investments accounted for using the equity method	9,066	16,612	–	25,678
Additions to non-current assets ¹	206,991	34,205	303,747	544,943
Total liabilities	2,264,221	328,404	462,771	3,055,396

¹ 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 Directors is measured in a manner consistent with that in the income statement.

The amounts provided to the 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 RMB2,996,702,000 (31 December 2019: RMB2,415,712,000), and the total of these non-current assets located in other countries and regions is RMB416,467,000 (31 December 2019: RMB423,351,000).

16. SEGMENT INFORMATION (CONT'D)

During the six months ended 30 June 2020 and 2019, revenue from two 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	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Entities under control of ultimate holding company	632,541	581,328
Customer A group	338,508	310,362
	971,049	891,690

17. COMMITMENTS

(a) Capital commitments

As of 30 June 2020, the Group had capital commitments of RMB275,384,000 which were contracted but not provided for in the unaudited condensed consolidated interim financial information of the Group (31 December 2019: RMB215,523,000).

(b) Operating lease commitments

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

From 1 January 2019, 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 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Not later than one year	17,239	7,337

18. RELATED PARTY TRANSACTIONS

Related parties include the Group and its subsidiaries, other majority state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, 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.

The ultimate holding company is beneficially owned by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality, so it is a state-owned enterprise, which also owns a significant portion of the productive assets in the PRC. In accordance with IAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, other than the ultimate holding company and its subsidiaries, directly or indirectly controlled by the PRC government are also defined as related parties of the Group.

A portion of the Group's business activities are conducted with other state-owned enterprises. The Group believes that these transactions are carried out on normal commercial terms that are consistently applied to all customers. For the purpose of related party transactions disclosure, the Group has identified, to the extent practicable, those corporate customers and suppliers which are state-owned enterprises based on their ownership structure. It should be noted, however, that substantially all of the Group's business activities are conducted in the PRC and the influence of the PRC government in the Chinese economy is pervasive. In this regard, the PRC government indirectly holds interests in many companies. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests. Such interests, however, would not be known to the Group and are not reflected in the disclosures below. In addition, a portion of the Group's revenue from sales of goods are of a retail nature to end users, which include transactions with the employees of state-controlled entities while such employees are key management personnel and their close family members. These transactions are carried out on normal commercial terms that are consistently applied to all customers. Due to the volume and the pervasiveness of these transactions, the Group is unable to determine the aggregate amount of these transactions for disclosure. Therefore, the revenue from sales of goods disclosed below does not include retail transactions with these related parties. However, the Group believes that meaningful information relating to related party disclosures has been adequately disclosed.

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.

18. RELATED PARTY TRANSACTIONS (CONT'D)

(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	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Trademark license fee (Note (i))	1,750	1,600
Property leasing expense (Note (iii))	6,415	4,009
Additions to right-of-use assets	163	–
Interest on lease liabilities	83	124

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.
- (ii) 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.
- (iii) On 25 January 2017, the Company and the ultimate holding company entered into a property leasing framework agreement, 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 commencing from 1 January 2017 to 31 December 2019.
- On 30 December 2019, the Company renewed the property leasing framework agreement with the ultimate holding company, for a term of three years from 1 January 2020 to 31 December 2022.
- (iv) On 17 February 2020, with the approval of the extraordinary general meeting of the Company, the Company entered into the asset transfer agreement and supplemental asset transfer agreement with the ultimate holding company. The Company has purchased Beijing Tong Ren Tang Medicine Processing Base (including land use right and building ownership) with the consideration of RMB640,682,000 (tax inclusive). As at 30 June 2020, the unpaid amounts of RMB290,682,000 is presented in "Amounts due to related parties".

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	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Sales of Chinese medicine related products (Note (i))	621,997	561,739
Purchases of Chinese medicine related products (Note (ii))	50,917	82,222
Sole overseas exclusive distributorship (Note (iii))	25,688	21,366
Advertising services income (Note (iv))	10,544	19,589
Property leasing expense (Note (a)(iii))	2,211	1,779

Notes:

- (i) On 29 September 2016, 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 profit rate of the products of the Group in the past years of not exceeding 50%, which is in line with the previous gross profit rate of the Group. The renewed agreement was approved at the extraordinary general meeting of the Company on 16 December 2016 and for a term of three years from 1 January 2017 to 31 December 2019.

On 16 October 2019, the Company renewed the distribution framework agreement with the ultimate holding company with similar pricing policies. 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):

- (ii) The Company renewed a master procurement agreement with the ultimate holding company on 29 September 2016. 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) at a price higher than that of the products of the same type and quality offered to the Group by independent third parties or the prevailing market price; (2) if there is no comparable market price available for the materials/products, the price shall be determined based on the integrated cost plus not more than 15% surcharge, and in any event, the price for such procurement shall not be higher than terms offered by independent third parties to the Group. The renewed agreement was approved at the extraordinary general meeting of the Company on 16 December 2016 and for a term of three years from 1 January 2017 to 31 December 2019.

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 ("**Parent Company**") 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 Parent Company, for the purpose of the distribution of the relevant Tong Ren Tang branded products supplied by Parent Company ("**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.
- (iv) On 29 September 2016, 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 2017 to 31 December 2019. 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 negotiated and determined by the parties with reference to the actual quotation offered by the advertiser, which is at discount on the basis of its published price list, plus a reasonable fee for the advertising agency service of Tong Ren Tang Century Advertising, which is generally not higher than 15% of the quotation offered by the advertiser.

On 28 February 2020, 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) Transactions with other state-owned enterprises

In the ordinary course of business, the Group sells goods to, and purchase goods from other state-owned enterprises based on terms as set out in the underlying agreements, market prices or actual cost incurred, or as mutually agreed.

(d) Balances with related parties

Balances with related parties consisted of:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Amounts due from related parties (Note (i)):		
Subsidiaries and joint ventures of the ultimate holding company		
Trade receivables	232,039	183,286
Other financial assets at amortised cost	1,170	1,146
Prepayments	1,224	160
	234,433	184,592
Other state-owned enterprises		
Trade receivables	35,202	49,624
Other financial assets at amortised cost	1,095	8,871
Prepayments	10,603	11,192
	46,900	69,687
	281,333	254,279

18. RELATED PARTY TRANSACTIONS (CONT'D)

(d) Balances with related parties (Cont'd)

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Amounts due to related parties (Note (i)):		
Subsidiaries and joint ventures of the ultimate holding company		
Trade payables	45,080	43,538
Other payables	474,976	29,513
	520,056	73,051
Other state-owned enterprises		
Trade payables	10,185	8,081
Other payables	24,343	19,417
	34,528	27,498
	554,584	100,549
Lease liabilities		
Ultimate holding company	1,981	3,026
Borrowings from a related party (Note (ii)):		
Ultimate holding company	32,000	32,000

18. RELATED PARTY TRANSACTIONS (CONT'D)

(d) Balances with related parties (Cont'd)

Notes:

- (i) The amounts due from/to related parties are unsecured, interest-free and receivable or repayable within twelve months.

The ageing analysis of amounts due from related parties based on invoice date was as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 4 months	155,208	180,234
Over 4 months but within 1 year	111,124	56,066
Over 1 year	24,267	24,739
	290,599	261,039

The ageing analysis of amounts due to related parties based on invoice date was as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 4 months	544,385	97,018
Over 4 months but within 1 year	8,954	2,143
Over 1 year	1,245	1,388
	554,584	100,549

- (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.

INTERIM DIVIDEND

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2020 (corresponding period in 2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the first half of 2020, a novel coronavirus (COVID-19) epidemic (the “**Epidemic**”) broke out across the world and the uncertainties of market environment significantly increased. Since the outbreak of the Epidemic, the Group has paid close attention to its development and changes, and resumed work and production in an orderly manner. However, the Epidemic resulted in reduction of business hours of retail pharmaceutical stores and decrease in customer flows, and the revenue and profit of the Group decreased accordingly as the Chinese medicine products of the Group are mostly sold in retail pharmaceutical stores. For the six months ended 30 June 2020, the Group’s sales revenue amounted to RMB2,240,661,000, representing a decrease of 9.45% as compared with RMB2,474,627,000 for the corresponding period last year; net profit attributable to owners of the Company amounted to RMB271,650,000, representing a decrease of 29.00% as compared with RMB382,631,000 for the corresponding period last year.

During the reporting period, the Group continuously enhanced the Party’s political guidance, strengthened the construction of organization, built cadre forces and ideology, cemented each of the results in “year of management quality promotion”, upgraded industrial and commercial mode and deepened the work of decreasing costs while increasing efficiency. The Group also implemented the work policy of “adjustment, upgrade, reform, development”, lowered the risks of operation qualities, preserved and increased the recognition of the brand name of Tong Ren Tang. During the first half of this year, facing the severe situation of the Epidemic, the Group strictly implemented the requirements of “scientific prevention and control, precise policy implementation”, actively cooperated with the Epidemic prevention of the country, revolved around every decision implemented of striking back the Epidemic and fully exerted Party’s core political role. With strong responsibilities in mind, through scientific prevention and control, and using reliable dispatch methods, the Group prioritized the safety and health of its staff and focused on both Epidemic prevention and control and steady manufacturing and operation by orderly resuming production and fully resuming sales and distribution system so as to fully safeguard the supply of medicine for Epidemic treatment. In addition, in order to support the prevention and control of the Epidemic and realize the corporate social responsibility of state-owned enterprises, the Group donated Chinese patent medicine products to the Beijing Charity Association and other institutions, and donated masks, alcohol, antibacterial hand sanitizer to several community hospitals in Beijing to help the Party and the country win the Epidemic prevention and control war.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

BUSINESS REVIEW (CONT'D)

Since the outbreak of the Epidemic, the Chinese government has attached great importance to the characteristic and advantages of traditional Chinese medicine in the prevention and control of Epidemic. To this end, the Group made more rapid response to market demand, actively carried out activities under the theme of “Caring for Family, Caring for Health-Tong Ren Tang is in action” in multiple provinces and cities nationwide from March to June and adopt a product-centric strategy. In respect of the four stages of “prevention, control, resistance, maintenance” of traditional Chinese medicine for the treatment of COVID-19, the Group systematically selected more than 30 kinds of products for treatment for cold, heat alleviating and health boosting, including Banlangen Granules, Qi Guan Yan Pills, Jingzhi Niu Huang Jiedu Tablets, Liuwei Dihuang Pills, Zhibai Dihuang Pills, formulated operation plans based on the effect and characteristics of for each product and strived to drive product sales. In addition, in order to improve sales volume of retail end, the Group actively carried out activities under the theme of “Dream Tong Ren, Energize Terminal” in Guangdong Province, Shandong Province, Henan Province and others, enhanced cooperation with mid-large chain-stores and quality end-stores, improved brand name recognition of “Tong Ren Tang” as well as carried out product sales. In addition, Medical department closely focused on the changes of medical market and chose Liuwei Dihuang Pills, Xihuang Pills, Shengmai Liquor, Zhibai Dihuang Pills and others as key development products of medical sales channel to actively drive medical sales channel.

During the first half of 2020, the Group achieved single-product sales amount of more than RMB100 million for 5 product lines, RMB10 million to RMB100 million for 23 product lines, RMB5 million to RMB10 million for 13 product lines. In our major products, series of Liuwei Dihuang Pills increased by 16.66% in sales amount as compared to the corresponding period last year; series of Jinkui Shenqi Pills increased by 5.42% in sales amount as compared to the corresponding period last year; series of Xihuang Pills increased by 49.38% in sales amount as compared to the corresponding period last year; series of Niu Huang Jiedu Tablets decreased by 22.97% in sales amount as compared to the corresponding period last year; series of Ganmao Qingre Granules decreased by 41.30% in sales amount as compared to the corresponding period last year; and series of Shengmai Liquor increased over 100% in sales amount as compared to the corresponding period last year, due to the adequate production supply. During the Reporting Period, Ejiao series products market was still in adjustment and consuming inventory phase, therefore the Group kept control of the production and market launch and actively consumed inventory of Ejiao series, whose sales amount decreased by 31.75% as compared to the corresponding period last year. Meanwhile, through hard efforts of the first half year, variety development strategy and promotion activities the med “Caring for Family, Caring for Health” led to the increase in the sales amount of some products. For example, Zhibai Dihuang Pills series, Shugan Hewei Pills series, Zhuangyao Jianshen Pills series, Danggui Kushen Pills series, Banlangen Granules series, Buzhong Yiqi Pills series all increased in sales amount as compared to the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

BUSINESS REVIEW (CONT'D)

On the production side, during the Epidemic outbreak, despite of lack of staff, transportation difficulties, lack of supply on materials and other difficulties, the Group paid double efforts in production as for each of our production units, adjust production plan in time according to Epidemic treatment medicine and demand for sales, steadily and orderly scheduled production. Meanwhile, as our two new production bases namely Daxing Production Base ("**Daxing Branch Factory**") located in Daxing Bio-Pharma Industrial Base of Zhongguancun Technology Park District, Beijing, and Beijing Tong Ren Tang Technologies Development (Tangshan) Co., Limited ("**Tong Ren Tang Technologies Tangshan**") in Yutian County in Tangshan City of Hebei Province were officially put into operation, the chain of production has been gradually improved. During the first half of this year, these two production units overcame the difficulties brought by the Epidemic, enhanced the links between each step of production, reasonably adjusted production pace and released the pressure of supply for Liuwei Dihuang Pills and Shengmai Liquor and other products while keeping production quality and accelerating release of capacity. As a result, both total production value and production volume of the Group's Chinese patent medicine increased by 30% as compared to the same period last year.

Tong Ren Tang Chinese Medicine, a key subsidiary of the Company, served as the overseas development platform of the Group. It primarily engaged in manufacturing, retail and wholesale of Chinese medicine products overseas. During the reporting period, with Epidemic spreading all over the world and facing the weak consumption market, Mainland China, Hong Kong, Macau and other countries or regions implemented a series of prevention and control methods against Epidemic, which significantly affected the business of Tong Ren Tang Chinese Medicine. As of 30 June 2020, the sales revenue of Tong Ren Tang Chinese Medicine and its subsidiaries was RMB515,465,000, representing a decrease of 27.56% as compared with the corresponding period last year; net profit attributable to owners of Tong Ren Tang Chinese Medicine amounted to RMB205,508,000, representing a decrease of 33.64% as compared with the corresponding period last year. During the Epidemic outbreak, being committed to the corporate spirit of "Nurturing kindness and virtue, Preserving tranquility and wellness", Tong Ren Tang Chinese Medicine has established a "Tong Ren Tang global coronavirus prevention and treatment expert team" amidst the Epidemic and has issued 77 sets of "Fuzheng Biwen Decoction" formula to 35 countries and regions across the world at the end of the first half of the year with an aim to provide both a PRC solution and a Tong Ren Tang option for people to deal with the global Epidemic. Meanwhile, the Group initiated the "Care for others and fight the Epidemic" campaign, under which it urgently mobilized its retail outlets in 20 countries and regions to set up "Epidemic prevention medicine counters" and provide services such as free online medical consultations and mailing of medicine, and donated various types of Epidemic prevention products to mainland China, Hong Kong and overseas. Tong Ren Tang Chinese Medicine demonstrated the philanthropic spirit of a Chinese brand through efficient delivery of TCM-based anti-epidemic services.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

BUSINESS REVIEW (CONT'D)

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 Epidemic outbreak, due to the transformation of the consumers demand into purchase and storage of life necessities and Epidemic prevention items, reduced business hours of supermarkets and end-stores, suspended promotion, reduction of customer flow and other negative factors, the sales performance of Tong Ren Tang WM was greatly affected. As of 30 June 2020, the sales revenue of Tong Ren Tang WM was RMB31,806,000, representing a decrease of 28.60% as compared with the corresponding period of last year; net profit amounted to RMB2,287,000, representing a decrease of 67.84% as compared with the corresponding period of last year. Facing the strike of Epidemic to real economy, Tong Ren Tang WM actively sought market demand, adjusted sales focus in time, fully took advantages of e-commerce channel during the Epidemic period and went on live to sell goods and, promotions to actively drove online sales amount through "Beauty Makeup Day", "618" and other e-commerce activities such as "buy one, get one free" promotions, obtaining great results for increasing exposure of products and improving brand name recognition.

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. During the Epidemic outbreak, Nansanhuan Zhonglu Drugstore was affected by delay of delivery, reduction of business hours and other difficulties, facing shortage of Epidemic prevention medicine and supplies. As a hospital, Tong Ren Tang Second Traditional Chinese Medicine Hospital was viewed as a high risk area during Epidemic outbreak, thus the patients flow decreased significantly. In addition, other factors such as the stopping admission of acupuncture, physical therapy, massages and others also greatly affected the performance. As of 30 June 2020, the two companies jointly achieved sales revenue of RMB81,712,000, representing a decrease of 21.22% as compared with the corresponding period last year. Their net profit reached RMB740,000, representing a decrease of 87.18% as compared with the corresponding period last year. During the Epidemic outbreak, Tong Ren Tang Second Traditional Chinese Medicine Hospital and Nansanhuan Zhonglu Drugstore strictly implemented Epidemic prevention and control policy, disinfected timely and daily and took information register and measured body temperature and other prevention methods to keep medical staff and patients safe. Meanwhile, Tong Ren Tang Second Traditional Chinese Medicine Hospital stayed Chinese and Western Internal Medicine Clinic in business with normal business hours, took reservation through phone calls to effectively distribute patients and avoid rush hours, maintaining patients daily demand for medicine.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

BUSINESS REVIEW (CONT'D)

The six subsidiaries that engaged in material manufacturing, strictly followed the principle of “planting and harvesting specific to places of origin and seasons” and provided major medicinal materials including Cornel, Tuckahoe, Cortex Moutan, Gardenia, Peppermint. Among these companies, four of them are located in Hubei Province, Henan Province, Anhui Province and Zhejiang Province where were heavily hit by the Epidemic, resulting in delay of work and limited transportation, which had a significant impact on the performance. As of 30 June 2020, six subsidiaries engaging in production of Chinese medicinal raw materials recorded an aggregate sales revenue of RMB91,881,000, representing an increase of 17.34% compared to the corresponding period last year, and net profit of RMB5,715,000, representing a decrease of 11.44% compared to the corresponding period last year. During the first half of the year, facing shortages of raw materials for Epidemic prevention medicine, increased costs, limited transportation and other difficulties, each of planting base actively implemented plans for resuming of work, connected with purchasing department and production management department of the Company, and stored raw material in advance based on the production plan of medicine to maintain the production and supply stability of Banlangen Granules and other medicines demand for Epidemic prevention.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group had a total of 3,870 employees (31 December 2019: 3,913 employees), of which 1,919 were employees of the Company (31 December 2019: 1,931 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 is paid to employees as rewards for their contributions to the Company. Other statutory benefits include the Company's contributions to the endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing fund.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

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 ("RMB") and Hong Kong dollars ("HKD") to make borrowings and loans and to hold cash and cash equivalents.

As at 30 June 2020, the Group's cash and cash equivalents amounted to RMB3,821,047,000 (31 December 2019: RMB2,990,645,000) in total.

As at 30 June 2020, the Group's short-term borrowings amounted to RMB234,000,000 (31 December 2019: RMB35,000,000), carrying an interest rate of 2.320% (2019: 4.534%) per annum, and current portion of non-current bank borrowing amounted to RMB105,201,000 (31 December 2019: RMB105,198,000), total accounting for 9.17% (31 December 2019: 4.59%) of the total liabilities. Long-term borrowings amounted to RMB1,211,215,000 (31 December 2019: RMB1,223,571,000), bearing an annual interest rate of long-term bank borrowings at 3.390% (2019: 2.660%), and the actual annual interest rate of bonds was 3.008% (2019: 3.008%). The long-term borrowings represented 32.75% (31 December 2019: 40.05%) of the total liabilities. Of all the borrowings of the Group as at 30 June 2020, RMB339,201,000 will mature within one year and RMB1,211,215,000 will mature beyond one year.

Capital Structure

The Group's capital management policy is to ensure the continuous operation 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 2020, total assets of the Group amounted to RMB11,269,702,000 (31 December 2019: RMB10,469,970,000). The funds of the Group comprised non-current liabilities of RMB1,368,341,000 (31 December 2019: RMB1,365,734,000), current liabilities of RMB2,330,269,000 (31 December 2019: RMB1,689,662,000), equity attributable to owners of the Company of RMB5,609,894,000 (31 December 2019: RMB5,527,255,000) and non-controlling interests of RMB1,961,198,000 (31 December 2019: RMB1,887,319,000).

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL REVIEW (CONT'D)

Liquidity

As at 30 June 2020, the Group's liquidity ratio (the ratio of current assets to current liabilities) was 3.35 (31 December 2019: 4.49), reflecting that the Group had sufficient financial resources. The Group's quick ratio (the ratio of liquid assets to current liabilities) was 2.16 (31 December 2019: 3.04), 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 8.08 (31 December 2019: 8.87), reflecting that the Group's trade receivables were liquid. The Group's trade payables turnover ratio (the ratio of cost of sales to the average of trade payables balance) was 3.93 (31 December 2019: 3.92), 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 1.84 (31 December 2019: 1.91), 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 2020, the Group's gearing ratio (the ratio of total borrowings to equity attributable to owners of the Company) was 0.28 (31 December 2019: 0.25).

Expenses and Expense Ratio

As of 30 June 2020, the Group's distribution expenses amounted to RMB353,562,000 (30 June 2019: RMB406,961,000) and the distribution expense ratio, i.e. the ratio of distribution expenses to revenue, was 0.16 (30 June 2019: 0.16). The distribution expenses have no significant changes compared with the corresponding period of last year and the revenue margin is reasonable.

As of 30 June 2020, the Group's administrative expenses amounted to RMB183,947,000 (30 June 2019: RMB181,965,000) and the administrative expense ratio, i.e. the ratio of administrative expenses to revenue, was 0.08 (30 June 2019: 0.07). The administrative expenses have no significant changes compared with the corresponding period of last year and the revenue margin is reasonable.

As of 30 June 2020, the Group's finance income amounted to RMB5,123,000 (30 June 2019: RMB14,883,000) and the financial income ratio, i.e. the ratio of financial income to revenue, was 0.002 (30 June 2019: 0.006). The decrease in financial income was mainly due to the increase in interest costs.

Gross Margin and Net Profit Margin

As of 30 June 2020, the gross margin of the Group was 45.61% (30 June 2019: 51.92%), while the net profit margin was 18.11% (30 June 2019: 23.77%). During the first half of the year, the gross margin decreased mainly due to the decreased gross margin of Tong Ren Tang Chinese Medicine affected by the Epidemic, as well as the increase of resources cost, depreciation and amortisation of Daxing Branch Factory and Tong Ren Tang Technologies Tangshan after operation.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL REVIEW (CONT'D)

Research and Development Expenses

As of 30 June 2020, the research and development expenses (excluding employee benefit expense, depreciation and amortisation expense) of the Group were RMB20,128,000 (30 June 2019: RMB5,876,000), accounting for 0.27% of net assets (30 June 2019: 0.08%) and 0.90% of revenue (30 June 2019: 0.24%), respectively. The research and development expenses including employee benefit expense, and depreciation and amortisation expense were RMB31,555,000 (30 June 2019: RMB15,441,000), accounting for 0.42% of net assets (30 June 2019: 0.20%) and 1.41% of revenue (30 June 2019: 0.62%), respectively.

Capital Expenditure

As of 30 June 2020, the Group's capital expenditure incurred amounted to RMB383 million (30 June 2019: RMB151 million), primarily used for the purchase of Beijing Tong Ren Tang Medicine Processing Base from Tong Ren Tang Holdings (including land use right and building ownership).

Pledges over Assets of the Group

As at 30 June 2020, RMB9,292,000 (31 December 2019: RMB9,438,000) of the Group's assets was pledged as security for long-term borrowing matured within one year of RMB48,000 (31 December 2019: RMB49,000).

Contingent Liabilities

As at 30 June 2020, the Group had no contingent liabilities (31 December 2019: Nil).

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FUTURE PROSPECTS

For the second half of the year, chances are the Epidemic will keep affecting every aspects all over the world and uncertainties will increase in every way, which brings challenges to the Group. Therefore, the Group will keep enhancing the development thoughts of “strengthening Party construction and promoting business, strengthening management and promoting development”, sort out operation thoughts under the normalization of Epidemic prevention and control, and realize the goal of promoting high-quality development under the guidance of Party building in combination with the development and changes of the macro-economic situation and the industry and market.

As for the sales, the Group keeps carrying out activities under the series theme of “Caring for Family Caring for Health” and “Dream Tong Ren, Energize Terminal”, enhancing the cooperation between mid-large chain-stores and high-quality stores in every province and city. Meanwhile, the Group also keeps researching and enriching contents of “prevention, control, resistance, maintenance” theory, sorts out and subdivides the variety resources according to the changes of situation in Epidemic prevention and control and market demand and based on different diseases, eventually forming five varieties resources, namely, kidney diseases, infant medicines, cancers, tonic, and nourishing lungs. The Group will segment each variety and seek representative varieties to promote, in combination with online and offline themes of promotion modes in order to keep improving the experiences of consumers and drive the sales of products.

As for the productions, the Group fully displays the productivity advantages of newly-built production units, timely adjusts and optimizes production supply plans, actively implements connection of old and new capacities and structural adjustment, combines with market demands and changes of epidemic prevention and control, fully maintaining the supply of products, ensuring stable and orderly operation within the production system during the transitional phase.

As for the second half of the year, under the lead of the Party, the Group will implement the spirit of national Epidemic prevention and control. Under the premise of satisfying the work of Epidemic prevention and control, the Group will keep fulfilling original aspiration and duty, and actively practice social responsibilities. Meanwhile, based on a continual focus and emphasis on Chinese Traditional medicine production as main business, the Group insists on a main line of work of “adjustment, improvement, reform, development”. Oriented by market demand, while tapping current variety resources, the Group actively explores and expands product domain, providing strong support for healthy, stable and sustainable development.

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

On 30 March 2020, each of Mr. Huang Ning and Mr. Wu Le Jun resigned as the executive Director, which took effect upon the new executive Director being elected by the Shareholders at the annual general meeting of the Company held on 18 June 2020 (“**AGM**”).

At the AGM, Mr. Jin Tao and Mr. Ma Guan Yu were appointed as the executive Director of the Seventh Session of the Board, each with a term commencing from the conclusion of the AGM to the date of the annual general meeting to be held in 2021. Mr. Jin Tao and Mr. Ma Guan Yu, each as an executive director of the Company, will not receive any Director’s remuneration from the Company.

On 8 May 2020, Mr. Dong Ke Man resigned as the employee representative Supervisor, with from the date of the AGM.

At the representatives group leaders’ joint meeting of the Company held on 8 May 2020, Mr. Li Yuan Hong has been elected as a Supervisor of the Seventh Session of the Supervisory Committee, with a term commencing from the date of the AGM and ending on the expiration of the term of the current session of the Supervisory Committee. Mr. Li Yuan Hong will not receive any remuneration as a Supervisor from the Company.

For details of the aforesaid changes, please refer to the circular of the Company dated 29 April 2020 and the announcements of the Company dated 30 March 2020 and 8 May 2020.

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, the Rules for the Preparation and Reporting of Information Disclosure by Listed Issuers of Securities No. 21-General Provisions on the Annual Internal Control Assessment Report and the Internal Control Evaluation Manual.

Duties in respect of risk management of the Company are taken by the audit committee of the Company (the "**Audit Committee**"), which is responsible for the supervision of relevant risk management system to make sure that the system conforms to the strategies and risk tolerance of the Company.

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 2020 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 2020, 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 2020, 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) <i>(Note 1)</i>	92.01%	–	46.85%
Tong Ren Tang Holdings <i>(Note 2)</i>	Interest of controlled corporation by the substantial shareholder	600,000,000 (L) <i>(Note 1)</i>	92.01%	–	46.85%
	Beneficial Owner	9,480,000 (L) <i>(Note 1)</i>	1.45%	–	0.74%
	Beneficial Owner	10,175,000 (L) <i>(Note 1)</i>	–	1.61%	0.79%
Total		619,655,000 (L) <i>(Note 1)</i>	93.46%	1.61%	48.38%
Yuan Sai Nan <i>(Note 3)</i>	Beneficial Owner	35,732,000 (L) <i>(Note 1)</i>	–	5.68%	2.79%
Mitsubishi UFJ Financial Group, Inc. <i>(Note 4)</i>	Interest of controlled corporation by the substantial shareholder	37,465,000 (L) <i>(Note 1)</i>	–	5.95%	2.93%
Hillhouse Capital Advisors, Ltd. <i>(Note 5)</i>	Investment manager	47,663,000 (L) <i>(Note 1)</i>	–	7.58%	3.72%
Citigroup Inc. <i>(Note 6)</i>	Interest of corporation controlled by the substantial shareholder,	39,799,630 (L) <i>(Note 1)</i>	–	6.33%	3.11%
	Person having a security interest in shares,	904,000 (S) <i>(Note 1)</i>	–	0.14%	0.07%
	Custodian corporation/ approved lending agent	21,842,260 (P) <i>(Note 1)</i>	–	3.47%	1.71%

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

OTHER INFORMATION (CONT'D)

Substantial Shareholders (Cont'd)

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 2020, 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, as at 30 June 2020, Tong Ren Tang Holdings also directly held 9,480,000 domestic shares and 10,175,000 H shares of the Company, with percentage of total share capital increasing from 0.74% to 1.53%.
- (3) Yuan Sai Nan held 35,732,000 H shares of the Company in long position.
- (4) Mitsubishi UFJ Financial Group, Inc. indirectly held 37,465,000 H shares of the Company in long position through a series of corporations under its control.
- (5) 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 was no transfer of shares of the Company as part of the reorganisation. 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.
- (6) Citigroup Inc. indirectly held 989,370 H shares of the Company in long position and 904,000 H shares of the Company in short position through a series of entities under its control, held 16,968,000 H shares of the Company in long position as a person holding security interest in shares, and held 21,842,260 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 2020.

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

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 Niu Huang Pills (安宮牛黃丸), 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 in terms of their curative effects. The Company focuses on manufacturing products in new dosage forms which are more competitive as compared with western medicine. The Company's main products include Liuwei Dihuang Pills (六味地黃丸), Niu Huang 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 classification 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 committed by Tong Ren Tang Holdings and Tong Ren Tang Ltd. in favor of the Company ("**October Undertaking**"), that other than Angong Niu Huang 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 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 first rights of refusals 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 first rights of refusals) 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.