



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)



2022
INTERIM REPORT



HIGHLIGHTS

- **For the six months ended 30 June 2022, the Group's revenue represents an increase of approximately 8.99% compared to the corresponding period in 2021.**
- **For the six months ended 30 June 2022, profit attributable to owners of the Company represents an increase of approximately 0.91% compared to the corresponding period in 2021.**
- **For the six months ended 30 June 2022, earnings per share for profit 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 2022.**



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 2022 (the “**Reporting Period**”) as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		For the six months ended 30 June	
	<i>Note</i>	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Revenue	6	3,014,688	2,766,118
Cost of sales		(1,721,522)	(1,517,394)
Gross Profit		1,293,166	1,248,724
Distribution expenses		(496,428)	(449,046)
Administrative expenses		(226,348)	(211,350)
Net impairment losses on financial assets		(9,629)	(376)
Other (losses)/income and gains, net		(630)	150
Operating profit		560,131	588,102
Finance income	7	18,936	14,880
Finance costs	7	(28,260)	(29,456)
Finance costs, net	7	(9,324)	(14,576)
Share of losses of investments accounted for using the equity method		(204)	(124)
Profit before income tax		550,603	573,402
Income tax expense	9	(98,394)	(99,699)
Profit for the period		452,209	473,703
Profit attributable to:			
Owners of the Company		318,322	315,461
Non-controlling interests		133,887	158,242
		452,209	473,703
Earnings per share for profit attributable to owners of the Company during the period			
— Basic and diluted	10	RMB0.25	RMB0.25

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Profit for the period	452,209	473,703
Other comprehensive income/(losses) <i>Items that may be reclassified to profit or loss</i>		
Foreign currency translation differences		
— Group	123,886	(29,927)
— Joint ventures and associates	239	(898)
<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	2,219	1,075
Other comprehensive income/(losses) for the period, net of tax	126,344	(29,750)
Total comprehensive income for the period	578,553	443,953
Attributable to:		
Owners of the Company	366,268	304,500
Non-controlling interests	212,285	139,453
Total comprehensive income for the period	578,553	443,953

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

		30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	12	2,585,705	2,614,731
Right-of-use assets	12	628,883	643,054
Intangible assets		61,461	62,943
Investments accounted for using the equity method		33,935	33,901
Financial assets at fair value through other comprehensive income		6,955	4,466
Prepayments for purchases of non-current assets		36,520	37,987
Deferred income tax assets		70,523	66,494
		3,423,982	3,463,576
Current assets			
Inventories		2,994,092	2,847,116
Trade and bills receivables	13	1,528,166	1,193,165
Other financial assets at amortised cost		30,816	27,031
Prepayments and other current assets		94,825	202,226
Financial assets at fair value through profit or loss		381	–
Financial assets at fair value through other comprehensive income		103,314	111,553
Term deposits placed with banks		1,505,906	503,040
Cash and cash equivalents		2,671,707	3,246,159
		8,929,207	8,130,290
Total assets		12,353,189	11,593,866

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

		30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	14	1,280,784	1,280,784
Reserves		4,860,038	4,698,695
		6,140,822	5,979,479
Non-controlling interests		2,267,407	2,178,923
Total equity		8,408,229	8,158,402
LIABILITIES			
Non-current liabilities			
Borrowings		919,356	732,153
Lease liabilities		81,428	87,068
Deferred income tax liabilities		6,878	6,767
Deferred income — government grants		156,019	151,346
		1,163,681	977,334
Current liabilities			
Trade and bills payables	15	814,933	893,714
Salary and welfare payables		19,724	55,433
Contract liabilities		146,914	223,128
Current income tax liabilities		84,184	43,889
Other payables		1,077,740	417,465
Borrowings		575,730	760,692
Lease liabilities		62,054	63,809
		2,781,279	2,458,130
Total liabilities		3,944,960	3,435,464
Total equity and liabilities		12,353,189	11,593,866

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Cash flows from operating activities:		
Cash generated from operations	621,389	566,705
Interest paid	(28,165)	(12,056)
Income tax paid	(61,777)	(84,633)
Net cash generated from operating activities	531,447	470,016
Cash flows from investing activities:		
Purchase of property, plant and equipment	(61,524)	(91,210)
Purchase of land use rights	(6,133)	-
Purchase of other long-term assets	(390)	(10,986)
Proceeds from disposals of property, plant and equipment and other long-term assets	42	15
Increase in term deposits placed with banks with original maturities exceeding three months	(1,505,906)	(21,844)
Decrease in term deposits placed with banks with original maturities exceeding three months	503,040	454,395
Dividends received	187	150
Interest received	14,298	16,184
Net cash (used in)/generated from investing activities	(1,056,386)	346,704
Cash flows from financing activities:		
Proceeds from borrowings	816,300	1,016,629
Repayments of borrowings	(814,073)	(209,229)
Capital injection from non-controlling interests	8,980	615
Principal elements of lease payments	(23,735)	(20,484)
Dividends paid to owners of the Company	-	(8,742)
Dividends paid to non-controlling interests	(132,755)	(112,128)
Acquisition of further interest in a subsidiary	(2,493)	-
Net cash (used in)/generated from financing activities	(147,776)	666,661
Net (decrease)/increase in cash and cash equivalents	(672,715)	1,483,381
Cash and cash equivalents at beginning of the period	3,246,159	2,947,958
Effects of exchange rate changes on cash and cash equivalents	98,263	(26,527)
Cash and cash equivalents at end of the period	2,671,707	4,404,812

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 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 2022	1,280,784	412,245	624,987	45,455	102,043	(28,526)	(2,808)	132,187	3,413,112	5,979,479	2,178,923	8,158,402
Comprehensive income												
Profit for the period	-	-	-	-	-	-	-	-	318,322	318,322	133,887	452,209
Change in fair value of financial assets at fair value through other comprehensive income ("FVOCI")	-	-	-	-	-	-	844	-	-	844	1,375	2,219
Foreign currency translation differences												
— Group	-	-	-	-	-	47,011	-	-	-	47,011	76,875	123,886
— Joint ventures and associates	-	-	-	-	-	91	-	-	-	91	148	239
Transactions with owners in their capacity as owners												
2021 dividends distributed to shareholders of the Company	-	-	-	-	-	-	-	-	(204,925)	(204,925)	-	(204,925)
2021 dividends distributed to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(132,781)	(132,781)
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	-	8,980	8,980
Balance as at 30 June 2022	1,280,784	412,245	624,987	45,455	102,043	18,576	(1,964)	132,187	3,526,509	6,140,822	2,267,407	8,408,229



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	Statutory public	Tax reserve	Foreign currency translation differences	Financial assets at	Other reserve	Retained earnings	Total		
			reserve fund	welfare fund			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
Comprehensive income												
Profit for the period	-	-	-	-	-	-	-	-	315,461	315,461	158,242	473,703
Change in fair value of financial assets at 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)
Transactions with owners in their capacity as owners												
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

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 24 August 2022.

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 2022 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 2021, 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 2021, 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 2022:

Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018–2020

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 TO STANDARDS 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 2023 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 8	Definition of Accounting Estimates ⁽¹⁾
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ⁽¹⁾
IFRS 17	Insurance Contracts ⁽¹⁾
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ⁽¹⁾
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽²⁾

⁽¹⁾ Effective for the accounting period beginning on or after 1 January 2023

⁽²⁾ 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 2021.

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 2021.

There have been no significant changes in any risk management policies since year end of 2021.

6. REVENUE

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Sales of Chinese medicine products		
— Mainland China	2,547,031	2,295,278
— Outside Mainland China	445,366	434,530
	2,992,397	2,729,808
Advertising service income		
— Mainland China	2,764	15,668
Service income		
— Mainland China	1,445	2,990
— Outside Mainland China	18,026	17,583
	19,471	20,573
Royalty fee income		
— Outside Mainland China	56	69
	3,014,688	2,766,118

7. FINANCE INCOME AND COSTS

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Finance income		
Interest income	(15,895)	(15,453)
Exchange (gains)/losses	(1,192)	573
Others	(1,849)	–
	(18,936)	(14,880)
Finance costs		
Interest on bank borrowings	25,109	13,924
Interest on lease liabilities	3,151	3,344
Interest on bonds	–	12,188
	28,260	29,456
Finance costs, net	9,324	14,576

8. EXPENSES BY NATURE

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Depreciation of property, plant and equipment	85,410	80,801
Amortisation of right-of-use assets	39,141	37,426
Amortisation of other long-term assets	4,893	4,162
Provision for impairment of inventories	12,324	18,005
Provision for impairment of receivables	9,629	376
Net losses on disposals of non-current assets	802	809

9. INCOME TAX EXPENSE

Pursuant to the Corporate Income Tax Law of the Mainland China effective from 1 January 2008, enterprises with a High/New Technology Enterprise (“**HNTE**”) status are able to enjoy a preferential tax rate of 15%. For the entities without the HNTE status, the Mainland China income tax rate is 25%. As of 30 June 2022 and 2021, the Company and certain of its subsidiaries have obtained the HNTE certificate. Consequently, their applicable income tax rate used as of 30 June 2022 is 15% (corresponding period in 2021: 15%).

Hong Kong Special Administrative Region of the PRC (“**Hong Kong, China**”) profits tax has been provided at the rate of 16.5% (corresponding period in 2021: 16.5%) on the estimated assessable profit for the six months ended 30 June 2022.

Income tax on other countries and regions (excluding Mainland China and Hong Kong, China) 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.

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Current income tax expense		
— Mainland China	60,269	57,188
— Hong Kong, China	35,089	42,668
— Other countries and regions (excluding Mainland China and Hong Kong, China)	6,654	5,880
	102,012	105,736
Deferred income tax credit	(3,618)	(6,037)
	98,394	99,699

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB318,322,000 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 2022 and 2021.

	For the six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Profit attributable to owners of the Company	318,322	315,461
Weighted average number of ordinary shares in issue (thousands)	1,280,784	1,280,784
Earnings per share	RMB0.25	RMB0.25

11. DIVIDENDS

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2022 (for the six months ended 30 June 2021: Nil).

On 18 March 2022, the Board proposed a cash dividend in respect of the year ended 31 December 2021 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 2021 annual general meeting (the "AGM") of the Company held on 16 June 2022. These dividends have been paid on 15 August 2022.

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

For the six months ended 30 June 2022, the additions to right-of-use assets of the Group was RMB13,829,000 (corresponding period in 2021: RMB36,925,000).

For the six months ended 30 June 2022, the additions to property, plant and equipment of the Group was approximately RMB52,147,000 (corresponding period in 2021: RMB39,462,000).

13. TRADE AND BILLS RECEIVABLES

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Trade receivables		
— third parties	1,026,363	692,942
— related parties (<i>Note 18(c)</i>)	145,759	92,915
	1,172,122	785,857
Bills receivables	425,815	470,794
	1,597,937	1,256,651
Less: provision for impairment		
— third parties	(62,506)	(58,292)
— related parties (<i>Note 18(c)</i>)	(7,265)	(5,194)
	(69,771)	(63,486)
Trade and bills receivables, net	1,528,166	1,193,165

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 180 days. As at 30 June 2022 and 31 December 2021, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Within 4 months	1,222,130	1,115,121
Over 4 months but within 1 year	300,739	84,461
Over 1 year but within 2 years	39,059	13,112
Over 2 years but within 3 years	6,901	6,073
Over 3 years	29,108	37,884
	1,597,937	1,256,651

14. SHARE CAPITAL

	30 June 2022 (Unaudited)		31 December 2021 (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

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Trade payables		
— third parties	770,174	868,083
— related parties (<i>Note 18(c)</i>)	44,759	25,631
	814,933	893,714
Bills payables	—	—
Trade and bills payables	814,933	893,714

15. TRADE AND BILLS PAYABLES (CONT'D)

As at 30 June 2022 and 31 December 2021, the ageing analysis of trade and bills payables based on invoice date was as follows:

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Within 4 months	682,055	767,282
Over 4 months but within 1 year	128,134	119,724
Over 1 year but within 2 years	647	2,432
Over 2 years but within 3 years	255	429
Over 3 years	3,842	3,847
	814,933	893,714

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 2022 is as follows:

(Unaudited)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All others RMB'000	Total RMB'000
Segment revenue	2,017,105	521,308	838,481	3,376,894
Inter-segment revenue	(18,851)	(1,561)	(341,794)	(362,206)
Revenue from external customers	1,998,254	519,747	496,687	3,014,688
Timing of revenue recognition				
At a point in time	1,998,226	501,382	493,892	2,993,500
Over time	28	18,365	2,795	21,188
	1,998,254	519,747	496,687	3,014,688
Profit/(loss) for the period	275,037	197,881	(20,709)	452,209
Interest income	9,156	3,588	3,151	15,895
Interest expense	(25,666)	(2,038)	(556)	(28,260)
Depreciation of property, plant and equipment	(47,231)	(5,445)	(32,734)	(85,410)
Amortisation of right-of-use assets	(11,917)	(24,764)	(2,460)	(39,141)
Amortisation of other long-term assets	(2,581)	(1,236)	(1,076)	(4,893)
Provision for impairment of inventories	(12,324)	-	-	(12,324)
(Provision for)/reversal of impairment of receivables	(6,415)	672	(3,886)	(9,629)
Share of profit/(losses) of investments accounted for using the equity method	422	(626)	-	(204)
Income tax expense	(43,002)	(41,742)	(13,650)	(98,394)
Additions to non-current assets ⁽¹⁾	35,969	8,858	22,000	66,827

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

16. SEGMENT INFORMATION (CONT'D)

The segment assets and liabilities as at 30 June 2022 are as follows:

(Unaudited)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All others RMB'000	Total RMB'000
Segment assets and liabilities				
Total assets	6,599,049	3,248,379	2,505,761	12,353,189
Investments accounted for using the equity method	20,180	13,755	-	33,935
Total liabilities	2,946,751	257,327	740,882	3,944,960

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 others 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/(loss) 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)
Additions to non-current assets ⁽¹⁾	9,297	55,338	28,341	92,976

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

16. SEGMENT INFORMATION (CONT'D)

The segment assets and liabilities as at 31 December 2021 are as follows:

(Audited)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All others RMB'000	Total RMB'000
Segment assets and liabilities				
Total assets	6,006,755	3,102,052	2,485,059	11,593,866
Investments accounted for using the equity method	19,759	14,142	–	33,901
Total liabilities	2,493,218	231,078	711,168	3,435,464

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 RMB2,924,493,000 (31 December 2021: RMB2,963,403,000), and the total of these non-current assets located in other countries and regions is RMB422,011,000 (31 December 2021: RMB429,213,000).

16. SEGMENT INFORMATION (CONT'D)

During the six months ended 30 June 2022 and 2021, 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	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Entities under control of ultimate holding company	923,643	837,072
Customer A group	339,562	371,312
	1,263,205	1,208,384

17. COMMITMENTS

(a) CAPITAL COMMITMENTS

As of 30 June 2022, the Group had capital commitments of RMB61,457,000 which were contracted but not provided for in the unaudited condensed consolidated interim financial information of the Group (31 December 2021: RMB69,210,000).

(b) OPERATING LEASE COMMITMENTS

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

As of 30 June 2022, 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 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Not later than one year	11,566	2,794

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	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Trademark license fee (<i>Note (i)</i>)	2,025	1,800
Interest on lease liabilities		
— Property, plant and equipment (<i>Note (ii)</i>)	270	537
— Land use right (<i>Note (iii)</i>)	652	791

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. The annual licence agreement fee is RMB3,000,000 in 2018 with an annual increase of RMB300,000 thereafter.

During 2021, the Company renewed the licence agreement with the ultimate holding company with similar terms, for a term from 1 April 2021 to 31 December 2024.

- (ii) 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. 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 dated 26 March 2021 was entered into between the Company and the ultimate holding company, 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	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Sales of Chinese medicine related products (Note (i))	922,403	822,357
Purchases of Chinese medicine related products (Note (ii))	155,060	64,274
Purchases of products for exclusive distributorship (Note (iii))	5,783	5,700
Advertising services income (Note (iv))	1,240	14,715
Property leasing expense (Note (a)(iii))	2,028	2,031
Interest on lease liabilities (Note (a)(ii))	65	142

Notes:

- (i) On 16 October 2019, the Company entered into 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. 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.
- (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 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.
- (iii) Tong Ren Tang Chinese Medicine entered an exclusive distributorship frame-work agreement with Beijing Tong Ren Tang Company Limited ("**Tong Ren Tang Ltd.**") on 6 November 2020, with an effective period from 1 January 2021 to 31 December 2023, 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 Mainland China. 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 Mainland China 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 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:

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Amounts due from related parties (Note (i)):		
Ultimate holding company		
Other financial assets at amortised cost	698	698
Subsidiaries and joint ventures of the ultimate holding company		
Trade receivables, net	138,494	87,721
Other financial assets at amortised cost	830	794
Prepayments	905	1,092
	140,229	89,607
Amounts due to related parties (Note (i)):		
Subsidiaries and joint ventures of the ultimate holding company		
Trade payables	44,759	25,631
Other payables	125,708	25,906
Contract liabilities	4,155	3,406
	174,622	54,943
Lease liabilities		
Ultimate holding company and its subsidiaries (Note (a)(iii)), (Note (a)(iii))	42,085	42,723
Borrowings from a related party (Note (ii)):		
Ultimate holding company	32,300	32,300

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.

INTERIM DIVIDEND

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2022 (corresponding period in 2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2022, due to the recurrence of the pandemic, there was still severe challenges in the global economic situation, which also brought significant challenges to the production and operation of the Group. During the Reporting Period, the Group focused on the annual work direction of “driving transformation”, thoroughly implemented the large-variety-strategy, advanced its work on production supply assurance, management system linkage and healthy development of subsidiaries, effectively coped with the impact of the COVID-19 pandemic and complicated risks and challenge, and achieved the semi-annual work target. For the six months ended 30 June 2022, the Group's sales revenue amounted to RMB3,014,688,000, representing an increase of 8.99% compared to RMB2,766,118,000 for the corresponding period last year; the Group's net profit amounted to RMB452,209,000, representing a decrease of 4.54% compared to RMB473,703,000 for the corresponding period last year; and net profit attributable to owners of the Company amounted to RMB318,322,000, representing an increase of 0.91% compared to RMB315,461,000 for the corresponding period last year.

In the first half of 2022, due to the impact of the pandemic, the Company faced many unfavorable factors such as disruption in material supply and quarantine of some employees at home from time to time due to the anti-pandemic policies, and the overall output and value of proprietary Chinese medicines decreased slightly compared with the same period last year. In order to effectively cope with the impact of the pandemic on production, all production units of the Group adjusted their production plans in a timely manner according to the development of the pandemic, formulated corresponding work plans and emergency response plans, adopted closed-loop production to overcome difficulties such as shortage of manpower and tight supply of raw materials, and made efforts to ensure the non-stop production of medicines and continuous supply to the market. At the same time, the Company actively implemented the development of the large-variety-strategy, reasonably arranged production resources according to sales needs, gave priority to the production of major product series, out-of-stock series and seasonal series and provided all-round support in terms of raw materials assurance, processing and supply, and cargo transportation to ensure production and supply. In the first half of the year, according to the production arrangement, the Daxing Branch Factory rationally coordinated the production resources, and increased the production of Guanxin Suhe Pills (冠心蘇合丸), Jiawei Xiaoyao Pills (加味逍遙丸), which effectively guaranteed product supply to the market. Beijing Tong Ren Tang Technologies (Tangshan) Co., Ltd (“**Tong Ren Tang Technologies Tangshan**”), located in Yutian County, Tangshan City, Hebei Province, gave full play to its advantages of production capacity in terms of extraction and liquid preparation, prioritized the supply of urgently needed products and semi-finished products, increased the production of products such as Children Cough Fluid (兒童咳液), and ensured smooth and orderly production and supply.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

BUSINESS REVIEW (CONT'D)

In the first half of the year, the Company continued to adhere to the large-variety-strategy, focused on “Glow Campaign (煥彩行動)” and pressed on with the implementation of the market strategy of “One Product and Three Specifications”. During the year, the Company continued to expand its marketing channels and enriched its promotional means. Through “West Lake Forum”, distributors’ seminars and product promotion conferences, the Company further boosted the confidence of distributors and made its marketing activities more active and effective. During the Reporting Period, the Company focused on large-variety such as Niuhuang Jiedu Tablets (牛黃解毒片) and Jiawei Xiaoyao Pills (加味逍遙丸), based on the consumer characteristics of the main sales regions of respective products, comprehensively strengthened the connection with local chain stores, selected high-quality stores to carry out diversified market activities, and promoted the development local terminal market and enhanced terminal sales capabilities. At the same time, on the two major e-commerce platforms, JD.com and Alibaba, the Company strengthened product promotion and marketing through product launch, e-commerce festival promotions, live-streaming e-commerce, expert explanations and other means, improved product exposure and consumer awareness, and achieved good results.

During the Reporting Period, there were 5 product lines of the Group achieving a single-product sales amount of more than RMB100 million; 29 product lines achieving a single-product sales amount between RMB10 million to RMB100 million; 9 product lines achieving a single-product sales amount between RMB5 million to RMB10 million. Among major products, save for series of Ganmao Qingre Granules (感冒清熱顆粒) and Xihuang Pills (西黃丸) which recorded a decrease in revenue, the sales revenue of series of Liuwei Dihuang Pills (六味地黃丸), Jinkui Shenqi Pills (金匱腎氣丸), Niuhuang Jiedu Tablets (牛黃解毒片), Jiawei Xiaoyao Pills (加味逍遙丸), Shengmai Liquor (生脈飲) and Ejiao (阿膠) increased by 17%, 7%, 5%, 66%, 26% and 30%, respectively, as compared with the corresponding period of the previous year. Meanwhile, benefiting from the development of the large-variety-strategy, the sales revenue of Niuhuang Jiangya Pills (牛黃降壓丸) series, Zhibai Dihuang Pills (知柏地黃丸) series, Qiju Dihuang Pills (杞菊地黃丸) series, and Fuzi Lizhong Pills (附子理中丸) series all achieved double-digit growth as compared with the corresponding period of the previous year.

In terms of scientific research on products, the Group is mainly committed to conducting secondary scientific research on existing products, taking into consideration of curative effects of existing products and concentrating efforts in technological improvement and therapeutic effect upgrade. During the Reporting Period, the Company focused on pharmaceutical research (including medicinal material resources, production processes, quality standards, and material base research), efficacy research and clinical research and carried out scientific research and cultivation of large-variety such as Liuwei Dihuang Pills (六味地黃丸), Jiawei Xiaoyao Pills (加味逍遙丸), and Jingzhi Niuhuang Jiedu Tablets (京制牛黃解毒片), which continuously improved the core value of products and laid a sound foundation of scientific research for the implementation of the marketing concept of “One Product, One Strategy” for large-variety. At the same time, in light of the Group’s development needs during the “14th Five-Year Plan” period, the Group continued to advance the safety evaluation research and production verification of classic prescriptions such as Linggui Zhugan Decoction (苓桂術甘湯) and Shaoyao Gancao Decoction (芍藥甘草湯).

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

BUSINESS REVIEW (CONT'D)

Tong Ren Tang Chinese Medicine, the major subsidiary of the Company, adopts a strategy of driving medicine demand by providing medical services and promoting culture at first to build a global layout with its base in Hong Kong, China, aiming to continuously accelerate the internationalization of traditional Chinese medicine. During the Reporting Period, affected by the pandemic, Tong Ren Tang Chinese Medicine's production and R&D base in Tai Po, Hong Kong was suspended from February and resumed production in late April, resulting in a shortage of supply of certain core products in mainland China, Hong Kong and Macau, and a severe setback in production and operation. Therefore, for the six months ended 30 June 2022, Tong Ren Tang Chinese Medicine and its subsidiaries achieved sales revenue of RMB521,308,000, representing a year-on-year decrease of 11.22%, and net profit attributable to owners of Tong Ren Tang Chinese Medicine was RMB178,364,000, representing a year-on-year decrease of 19.90%. Despite the complicated and difficult situation in the first half of the year, thanks to the experience gained in coping with the pandemic as well as difficulties and challenges in the past two years, with the concerted efforts of staff, the downward trend of the core market of Tong Ren Tang Chinese Medicine has been reversed, and some overseas markets that have been cultivated for years also showed growth against the trend. Furthermore, Beijing Tong Ren Tang Hainan (Holding) Co., Ltd. (北京同仁堂海南(控股)有限公司), a newly established subsidiary of Tong Ren Tang Chinese Medicine, has been actively deploying global duty-free trade channels with China Duty Free Group as a breakthrough since its official operation this year. In April, it won the tender of the World's Largest Duty Free City — Haikou New Seaport Project of the China Duty Free Group and planned to set up Tong Ren Tang brand stores, expanding the layout of duty-free channels and providing a promising future.

Since its establishment, 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, affected by the pandemic, Tong Ren Tang WM suffered a setback in its offline physical sales channels and the flow rate of final products slowed down. At the same time, the procurement of raw materials was also significantly affected. In particular, the prices of some imported raw materials continued to rise and the supply cycle has been prolonged, resulting in a substantial increase in overall costs. In addition, in order to comply with the latest revision of the Good Manufacturing Practices for Cosmetics, filing and modification of some products were carried out, which also had a certain impact on production. During the Reporting Period, according to the functional positioning of different products, Tong Ren Tang WM coordinated and tailored its product operation strategies, enhanced product development, continued to focus on freckle cream, shampoo, acne cream and other functional products, and further clarified the overall planning of its own brands such as "Bencaozhiyue (本草之約)", "Jibendao (肌本道)" and "Hair Nature (髮之自然)", and further stepped up its efforts in the promotion of its own brands. At the same time, Tong Ren Tang WM have been expanding its online promotion platform from Tmall flagship store and JD flagship store to Douyin, Kuaishou and Xiaohongshu, etc., and launched its products such as Tong Ren Tang Anti-hair-loss and Hair-strengthening Shampoo (同仁堂防脫固發洗髮露), Tong Ren Tang Anti-hair loss and Hair-nurturing Shampoo (同仁堂防脫育發洗髮露) and Radix Sophorae Flavescentis Anti-acne Cream (苦參祛痘膏) by means of live broadcast and promotional videos, to continuously improve product awareness and reduce the negative impact of the pandemic and other factors on sales.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

BUSINESS REVIEW (CONT'D)

Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited ("**Nansanhuan Zhonglu Drugstore**") and Beijing Tong Ren Tang Second Traditional Chinese Medicine Hospital Co., Ltd ("**Tong Ren Tang Second Traditional Chinese Medicine Hospital**") are medical institution and retail pharmacy of the Company, respectively. During the Reporting Period, the Company entered into an asset transfer agreement with Beijing Tong Ren Tang Medical Caring Industry Investment Group, Co., Ltd. (北京同仁堂醫養產業投資集團有限責任公司) ("**Tong Ren Tang Medical Caring**"), pursuant to which Tong Ren Tang Medical Caring purchased 49% of the equity interest in Nansanhuan Zhonglu Drugstore and 49% of the equity interest in Tong Ren Tang Second Traditional Chinese Medicine Hospital at a consideration of RMB19,376,000 and RMB42,011,000 respectively, with a view to introducing Tong Ren Tang Medical Caring's market-oriented operation and management experience and assisting the high-quality development of the Group's medical care business. As of the date of this report, the transaction has not yet been completed. In the first half of the year, despite the complex challenges arising from the pandemic, the two companies stayed focus on service quality and continued to meet the medical and pharmaceutical service needs of different patients. During the Reporting Period, in order to meet the increasingly diverse health needs of consumers, Nansanhuan Zhonglu Drugstore continuously increased the proportion of products of same sources of medicine and food while ensuring the supply of mainstream products, and added more than 60 kinds of products such as Chinese and Western medicines, medical devices and health food. In the first half of the year, Tong Ren Tang Second Traditional Chinese Medicine Hospital provided new services in relation to Chinese and Western medicine health care and diagnosis and treatment such as "auricular point pressing", "thyroid function test", "diabetes typing test" to constantly enrich its sources of income. At the same time, it was keen on fulfilling its social responsibilities and provided additional support for vaccination and nucleic acid testing and screening, which further demonstrated its responsibility as a state-owned enterprise. During the six months ended 30 June 2022, the two subsidiaries, in aggregate, achieved sales revenue of RMB94,119,000, representing a year-on-year decrease of 2.18%, and net profit of RMB5,211,000, representing a year-on-year increase of 17.42%.

Based in authentic medicinal material production areas and taking full advantages of local herbs, the six subsidiaries engaged in production of Chinese medical raw materials mainly provide the Company with some of the Chinese medicinal materials for production. In the first half of the year, the six subsidiaries engaged in production of Chinese medical raw materials continued to keep an eye on the quality of medicinal materials, relied on the advantages of resources in their production areas and exercised stringent control over key process in planting and harvesting medicinal materials to ensure the quality of medicinal materials. At the same time, the subsidiaries actively conducted research and collection of planting information and market operation information in medicinal material production areas to minimize cost and improve operation quality while managing the quantity of herbal materials. During the six months ended 30 June 2022, the six subsidiaries engaged in production of Chinese medical raw materials achieved sales revenue of RMB153,975,000, representing a year-on-year increase of 30.14%, and net profit of RMB9,293,000, representing a year-on-year of increase 120.71%.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2022, the Group had a total of 4,017 employees (31 December 2021: 3,966 employees), of which 1,963 were employees of the Company (31 December 2021: 1,972 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 2022, the Group's cash and cash equivalents amounted to RMB2,671,707,000 (31 December 2021: RMB3,246,159,000) in total.

As at 30 June 2022, the Group's short-term borrowings amounted to RMB550,300,000 (31 December 2021: RMB735,300,000), carrying an interest rate of 3.443% (2021: 3.450%) per annum. The current portion of long-term bank borrowing amounted to RMB25,430,000 (31 December 2021: RMB25,392,000) in total, accounting for 14.59% (31 December 2021: 22.14%) of the total liabilities. The non-current portion of long-term borrowings amounted to RMB919,356,000 (31 December 2021: RMB732,153,000), carrying an annual interest rate of long-term bank borrowings at 3.573% (2021: 3.672%). The long-term borrowings represented 23.30% (31 December 2021: 21.31%) of the total liabilities. Of all the borrowings of the Group as at 30 June 2022, RMB575,730,000 will mature within one year and RMB919,356,000 will mature after one year.

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL REVIEW (CONT'D)

Capital Structure (Cont'd)

As at 30 June 2022, total assets of the Group amounted to RMB12,353,189,000 (31 December 2021: RMB11,593,866,000). The funds of the Group comprised non-current liabilities of RMB1,163,681,000 (31 December 2021: RMB977,334,000), current liabilities of RMB2,781,279,000 (31 December 2021: RMB2,458,130,000), equity attributable to owners of the Company of RMB6,140,822,000 (31 December 2021: RMB5,979,479,000) and non-controlling interests of RMB2,267,407,000 (31 December 2021: RMB2,178,923,000).

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

Liquidity

As at 30 June 2022, the Group's liquidity ratio (the ratio of current assets to current liabilities) was 3.21 (31 December 2021: 3.31), reflecting that the Group had sufficient financial resources. The Group's quick ratio (the ratio of liquid assets to current liabilities) was 2.10 (31 December 2021: 2.07), 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 6.61 (31 December 2021: 6.88), 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 4.03 (31 December 2021: 4.11), 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 2.06 (31 December 2021: 1.94), 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 2022, the Group's gearing ratio (the ratio of total borrowings to equity attributable to owners of the Company) was 0.24 (31 December 2021: 0.25).

Expenses and Expense Ratio

As of 30 June 2022, the Group's distribution expenses amounted to RMB496,428,000 (30 June 2021: RMB449,046,000) and the distribution expense ratio, i.e. the ratio of distribution expenses to revenue, was 0.16 (30 June 2021: 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 2022, the Group's administrative expenses amounted to RMB226,348,000 (30 June 2021: RMB211,350,000) and the administrative expense ratio, i.e. the ratio of administrative expenses to revenue, was 0.08 (30 June 2021: 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 2022, the Group's net finance costs amounted to RMB9,324,000 (30 June 2021: RMB14,576,000) and the financial costs ratio, i.e. the ratio of financial costs to revenue, was 0.0031 (30 June 2021: 0.0053). The decrease in financial costs was mainly due to the increase in finance income.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL REVIEW (CONT'D)

Gross Margin and Net Profit Margin

As of 30 June 2022, the gross margin of the Group was 42.90% (30 June 2021: 45.14%), while the net profit margin was 15.00% (30 June 2021: 17.13%).

Research and Development Expenses

As of 30 June 2022, the research and development expenses (excluding employee benefit expense, depreciation and amortisation expense) of the Group were RMB26,954,000 (30 June 2021: RMB13,688,000), accounting for 0.32% of net assets (30 June 2021: 0.17%) and 0.89% of revenue (30 June 2021: 0.49%), respectively. The research and development expenses including employee benefit expense and depreciation and amortisation expense were RMB44,603,000 (30 June 2021: RMB26,590,000), accounting for 0.53% of net assets (30 June 2021: 0.34%) and 1.48% of revenue (30 June 2021: 0.96%), respectively.

Capital Expenditure

As of 30 June 2022, the Group's capital expenditure incurred amounted to RMB68 million (30 June 2021: RMB102 million), primarily used for the purchase of equipment.

Pledges over Assets of the Group

As at 30 June 2022, RMB8,388,000 (31 December 2021: RMB8,508,000) of the Group's assets was pledged as security for long-term borrowing of RMB46,000 (31 December 2021: RMB46,000).

Contingent Liabilities

As at 30 June 2022, the Group had no contingent liabilities (31 December 2021: Nil).

Foreign Exchange Risk

The Group primarily operates in the Mainland China 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL REVIEW (CONT'D)

Material Acquisition/Disposal of Subsidiaries, Joint Ventures and Associates

On 20 June 2022, the Company entered into the asset transfer agreements with Beijing Tong Ren Tang Medical Caring Industry Investment Group, Co., Ltd (北京同仁堂醫養產業投資集團有限公司) ("**Tong Ren Tang Medical Caring**") pursuant to which the Company has agreed to dispose, and Tong Ren Tang Medical Caring has agreed to purchase, 49% of the equity interest in Beijing Tong Ren Tang Second Traditional Chinese Medicine Hospital, Co., Ltd. (北京同仁堂第二中醫醫院有限責任公司) and 49% of the equity interest in Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited (北京同仁堂南三環中路藥店有限公司), which shall be satisfied by way of payment of approximately RMB42,011,000 and RMB19,376,000 respectively. For further details, please refer to the Company's announcement dated 20 June 2022. As of the date of this report, the transactions have not yet been completed.

Except as disclosed above, during the Reporting Period, the Group did not have any material acquisition/disposal of subsidiaries, joint ventures or associates.

No Material Change

Since the publication of the latest annual report for the year ended 31 December 2021 on 19 April 2022, there have been no material changes to the Company's business.

FUTURE PROSPECTS

At present, China has introduced a number of measures to provide strong support for the development of traditional Chinese medicine. Traditional Chinese medicine has a wide range of audience and plays a unique role in medical and health care, and it is of great importance to the aging population and the growing demand for health care. The future development of the traditional Chinese medicine industry is promising. At the same time, it is notable that it will take some time for the mainstream medical market to generally recognize and accept traditional Chinese medicine. For a period of time, the Company will still focus on the in-depth development of the OTC market ("**Over-the-counter drugs market**"). In addition, the uncertainty of the changes in the pandemic has also added to the difficulties of marketing.

Facing opportunities and challenges, the Group will continue to follow the annual work direction of "driving transformation", remain unwavering in enhancing "transformation, reinforcement, focus, implementation, planning, foundation, synergy and effectiveness", analyze the development of the pandemic, continuously strengthen bottom-line thinking, adhere to the market demand-oriented approach, transform its concept for development, take active measures, efficiently coordinate the prevention and control of the pandemic and production and operation to ensure stable supply and orderly marketing.



MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FUTURE PROSPECTS (CONT'D)

In the second half of the year, the Group will continue to follow the “large-variety-strategy”, focus on the “Glow Campaign (煥彩行動)”, keep pace with market needs, continuously refine the products series of “treatment of chronic disease, treatment of foreseeable disease, non-medicine, pediatric drugs, Tong Ren Tang special medicine” and boost the overall sales volume of related products. On the one hand, the Group will resolutely implement the production and supply assurance mechanism under pandemic prevention and control, reasonably control the production pace, and effectively address consumers’ demand. At the same time, in light of the features of products and the characteristics of the main sales regions, the Group will continue to follow up on marketing services and terminal support to enhance the core competitiveness of large-variety. On the other hand, the Group will continue to promote the “Glow Campaign (煥彩行動)”, adhere to the general principle of “refreshing image, adjusting prices, controlling channels, and adjusting models”, improve market recognition and channel flow rate of products, and restore product value. At the same time, the Group will continue to strengthen the development of terminal channels, connect with strategic partners and national top 100 chains on a product-by-product basis, carry out all-round cooperation, ramp up activity on “empowering the terminal”, continuously increase the market coverage and shelf rate of products, and drive terminal sales.

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 to 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.

Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks that the Group is capable to take in achieving its strategic goals, ensuring that the Group has established and maintained reasonable 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 Group has established its risk management and internal control system and issued relevant reports with reference to regulations and requirements, including the Code of Practice for Corporate Control, the frame for Corporate Risk Management, the Basic Standard for Corporate Internal Control, the Guidelines for Corporate Internal Control Assessment and the Guidelines for Related Corporate Internal Control.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

OTHER INFORMATION (CONT'D)

Risk Management and Internal Control (Cont'd)

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. 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 Group has established its internal audit function. The dedicated internal audit department conducts regular and independent reviews on the operation 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.

Change of Directors and Supervisors

On August 24, 2022, Mr. Ma Guan Yu, a non-executive Director, tendered his resignation from the position due to work changes. The resignation of Mr. Ma will take effect upon the new non-executive Director being elected at the general meeting to be held.

On August 24, 2022, the Board proposed to appoint Ms. Feng Li as a non-executive Director. The proposed appointment is subject to the approval by the Shareholders at the general meeting in accordance with the Articles of Association. Ms. Feng's appointment will take effect from the date of approval by the Shareholders at the general meeting.

For details of the abovementioned change of directors, please refer to the announcement of the Company published on August 24, 2022.



MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

OTHER INFORMATION (CONT'D)

Change of Directors and Supervisors (Cont'd)

At the annual general meeting of the Company for the year 2021 held on 16 June 2022, the shareholders of the Company approved to adjust the remuneration of each independent non-executive Director and external Supervisor:

Director/Supervisor Name	Title	Remuneration before Adjustment (Tax Inclusive)	Remuneration after Adjustment (Tax Inclusive)
Ting Leung Huel, Stephen	Independent non-executive Director	HKD240,000 per annum	HKD288,000 per annum
Chan Ching Har, Eliza	Independent non-executive Director	HKD240,000 per annum	HKD288,000 per annum
Zhan Yuan Jing	Independent non-executive Director	RMB100,000 per annum	RMB120,000 per annum
Wu Yi Gang	External Supervisor	RMB100,000 per annum	RMB120,000 per annum

For details, please refer to the circular of the Company and the notice of annual general meeting, both dated 23 May 2022, and the announcement of the poll results of 2021 annual general meeting of the Company dated 16 June 2022.

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

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 2022 and discussed relevant internal audit, risk management and internal control matters. The Audit Committee has no disagreement with the accounting treatment in the unaudited financial statements of the Group for the six months ended 30 June 2022.

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

As at 30 June 2022, 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 2022, 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 in total issued voting shares
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	8,397,000 (L) <i>(Note 1)</i>	–	1.34%	0.66%
Total		617,877,000 (L) <i>(Note 1)</i>	93.46%	1.34%	48.24%
Yuan Sai Nan <i>(Note 3)</i>	Beneficial Owner	35,732,000 (L) <i>(Note 1)</i>	–	5.68%	2.79%
Hillhouse Capital Advisors, Ltd. <i>(Note 4)</i>	Investment manager	47,663,000 (L) <i>(Note 1)</i>	–	7.58%	3.72%

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 2022, 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 8,397,000 H shares of the Company.
- (3) Yuan Sai Nan held 35,732,000 H shares of the Company in long position.
- (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 was no transfer of shares of the Company involved in the changes above. As at 30 June 2022, 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

OTHER INFORMATION (CONT'D)

Substantial Shareholders (Cont'd)

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 2022.

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.

Significant Events after the Reporting Period

There are no material events subsequent to 30 June 2022 which could have a material impact on the Group's operating and financial performance as of the date of this report.

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 Niu Huang Qingxin Pills (同仁牛黃清心丸), Tongren Dahu Luo 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), 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 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 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 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.