



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)



2023

INTERIM REPORT



HIGHLIGHTS

- **For the six months ended 30 June 2023, the Group's revenue represents an increase of approximately 30.91% compared to the corresponding period in 2022.**
- **For the six months ended 30 June 2023, profit attributable to owners of the Company represents an increase of approximately 15.65% compared to the corresponding period in 2022.**
- **For the six months ended 30 June 2023, earnings per share for profit attributable to owners of the Company amounted to RMB0.29.**
- **The Board does not declare the distribution of an interim dividend for the six months ended 30 June 2023.**

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 2023 (the “**Reporting Period**”) as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	For the six months ended 30 June	
		2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Revenue	6	3,946,415	3,014,688
Cost of sales		(2,379,452)	(1,721,522)
Gross Profit		1,566,963	1,293,166
Distribution expenses		(618,362)	(496,428)
Administrative expenses		(313,311)	(226,348)
Reversal of/(provision for) impairment losses on financial assets		5,160	(9,629)
Other income/(losses) and gains, net		180	(630)
Operating profit		640,630	560,131
Finance income	7	42,495	18,936
Finance costs	7	(24,906)	(28,260)
Finance income/(costs), net	7	17,589	(9,324)
Share of gains/(losses) of investments accounted for using the equity method		1,794	(204)
Profit before income tax		660,013	550,603
Income tax expense	9	(100,016)	(98,394)
Profit for the period		559,997	452,209
Profit attributable to:			
Owners of the Company		368,151	318,322
Non-controlling interests		191,846	133,887
		559,997	452,209
Earnings per share for profit attributable to owners of the Company during the period			
— Basic and diluted	10	RMB0.29	RMB0.25

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	For the six months ended 30 June	
	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Profit for the period	559,997	452,209
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Foreign currency translation differences		
— Group	104,059	123,886
— Joint ventures and associates	124	239
<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	667	2,219
Other comprehensive income for the period, net of tax	104,850	126,344
Total comprehensive income for the period	664,847	578,553
Attributable to:		
Owners of the Company	407,380	366,268
Non-controlling interests	257,467	212,285
Total comprehensive income for the period	664,847	578,553

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

		30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
<i>Notes</i>			
ASSETS			
Non-current assets			
Property, plant and equipment	12	2,563,048	2,591,032
Right-of-use assets	12	669,764	615,033
Intangible assets		64,341	62,899
Investments accounted for using the equity method		36,240	34,191
Financial assets at fair value through other comprehensive income		9,559	8,591
Prepayments for purchases of non-current assets		45,614	39,858
Deferred income tax assets		64,942	60,983
		3,453,508	3,412,587
Current assets			
Inventories		3,140,870	3,239,209
Trade and bills receivables	13	1,404,740	1,497,249
Other financial assets at amortised cost		54,230	36,252
Prepayments and other current assets		134,254	153,223
Financial assets at fair value through profit or loss		395	429
Financial assets at fair value through other comprehensive income		154,759	98,148
Term deposits placed with banks		672,870	326,003
Cash and cash equivalents		4,064,607	3,721,668
		9,626,725	9,072,181
Total assets		13,080,233	12,484,768

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

		30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	14	1,280,784	1,280,784
Reserves		5,411,407	5,201,967
		6,692,191	6,482,751
Non-controlling interests			
		2,615,150	2,534,187
Total equity			
		9,307,341	9,016,938
LIABILITIES			
Non-current liabilities			
Borrowings		1,387,230	1,221,797
Lease liabilities		119,634	74,644
Deferred income tax liabilities		7,720	7,212
Deferred income — government grants		112,096	112,534
		1,626,680	1,416,187
Current liabilities			
Trade and bills payables	15	909,419	823,233
Salary and welfare payables		17,854	58,641
Contract liabilities		125,122	219,315
Current income tax liabilities		60,763	154,708
Other payables		883,821	497,278
Borrowings		76,453	250,496
Lease liabilities		72,780	47,972
		2,146,212	2,051,643
Total liabilities			
		3,772,892	3,467,830
Total equity and liabilities			
		13,080,233	12,484,768

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	For the six months ended 30 June	
	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Cash flows from operating activities:		
Cash generated from operations	1,070,672	621,389
Interest paid	(24,906)	(28,165)
Income tax paid	(197,293)	(61,777)
Net cash generated from operating activities	848,473	531,447
Cash flows from investing activities:		
Purchase of property, plant and equipment	(58,266)	(61,524)
Purchase of land use rights	(2,227)	(6,133)
Purchase of other long-term assets	(5,953)	(390)
Proceeds from disposals of property, plant and equipment and other long-term assets	2,326	42
Increase in term deposits placed with banks with original maturities exceeding three months	(672,870)	(1,505,906)
Decrease in term deposits placed with banks with original maturities exceeding three months	326,003	503,040
Dividends received	213	187
Interest received	34,752	14,298
Net cash used in investing activities	(376,022)	(1,056,386)
Cash flows from financing activities:		
Proceeds from borrowings	200,000	816,300
Repayments of borrowings	(208,621)	(814,073)
Capital injection from non-controlling interests	44,165	8,980
Principal elements of lease payments	(30,555)	(23,735)
Dividends paid to non-controlling interests	(213,684)	(132,755)
Transactions with non-controlling interests	-	(2,493)
Net cash used in financing activities	(208,695)	(147,776)
Net increase/(decrease) in cash and cash equivalents	263,756	(672,715)
Cash and cash equivalents at beginning of the period	3,721,668	3,246,159
Effects of exchange rate changes on cash and cash equivalents	79,183	98,263
Cash and cash equivalents at end of the period	4,064,607	2,671,707

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		
Balance as at 1 January 2023	1,280,784	412,245	678,479	45,455	102,043	68,305	(1,444)	159,301	3,737,583	6,482,751	2,534,187	9,016,938
Comprehensive income												
Profit for the period	-	-	-	-	-	-	-	-	368,151	368,151	191,846	559,997
Change in fair value of financial assets at fair value through other comprehensive income ("FVOCI")	-	-	-	-	-	-	254	-	-	254	413	667
Foreign currency translation differences												
— Group	-	-	-	-	-	38,928	-	-	-	38,928	65,131	104,059
— Joint ventures and associates	-	-	-	-	-	47	-	-	-	47	77	124
Transactions with owners in their capacity as owners												
2022 dividends to shareholders of the Company	-	-	-	-	-	-	-	-	(204,925)	(204,925)	-	(204,925)
2022 dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(213,684)	(213,684)
Capital injection from non-controlling interests	-	-	-	-	-	-	-	6,985	-	6,985	37,180	44,165
Balance as at 30 June 2023	1,280,784	412,245	678,479	45,455	102,043	107,280	(1,190)	166,286	3,900,809	6,692,191	2,615,150	9,307,341

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

(Unaudited)	Attributable to owners of the Company										Non-controlling interests	Total equity
	Share capital	Capital reserve	Statutory surplus reserve fund	Statutory public welfare fund	Tax reserve	Foreign currency translation differences	Financial assets at FVOCI reserve	Other reserve	Retained earnings	Total		
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 to shareholders of the Company	-	-	-	-	-	-	-	-	(204,925)	(204,925)	-	(204,925)
2021 dividends 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

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 have been approved by the Board for issue on 24 August 2023.

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 2023 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 2022, 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 2022, 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 2023:

IFRS 17	Insurance Contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform — Pillar Two Model Rules

The adoption of above new/revised standards and amendment to standards did 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/revised 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 2024, 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 1	Non-current liabilities with covenants ⁽¹⁾
Amendments to IFRS 16	Lease liability in sale and leaseback ⁽¹⁾
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements ⁽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 2024

⁽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 2022.

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 2022.

There have been no significant changes in any risk management policies since the year end of 2022.

6. REVENUE

	For the six months ended 30 June	
	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Sales of Chinese medicine products		
— Mainland China	3,311,352	2,547,031
— Outside Mainland China	606,932	445,366
	3,918,284	2,992,397
Advertising service income		
— Mainland China	5,836	2,764
Service income		
— Mainland China	1,410	1,445
— Outside Mainland China	20,844	18,026
	22,254	19,471
Royalty fee income		
— Outside Mainland China	41	56
	3,946,415	3,014,688

7. FINANCE INCOME AND COSTS

	For the six months ended 30 June	
	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Finance income		
Interest income	(39,482)	(15,895)
Exchange gains, net	(690)	(1,192)
Others	(2,323)	(1,849)
	(42,495)	(18,936)
Finance costs		
Interest on bank borrowings	21,037	25,109
Interest on lease liabilities	3,869	3,151
	24,906	28,260
Finance (income)/costs, net	(17,589)	9,324

8. EXPENSES BY NATURE

	For the six months ended 30 June	
	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Depreciation of property, plant and equipment	88,505	85,410
Depreciation of right-of-use assets	43,923	39,141
Amortisation of other long-term assets	4,109	4,893
Provision for impairment of inventories	11,139	12,324
(Reversal of)/provision for impairment of receivables	(5,160)	9,629
Losses on disposals of non-current assets	2,509	802

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 2023 and 30 June 2022, the Company and certain of its subsidiaries have obtained the HNTE certificate. Consequently, their applicable income tax rate used as of 30 June 2023 is 15% (corresponding period in 2022: 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 2022: 16.5%) on the estimated assessable profit for the six months ended 30 June 2023.

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	
	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Current income tax expense		
— Mainland China	52,507	60,269
— Hong Kong, China	44,642	35,089
— Other countries and regions (excluding Mainland China and Hong Kong, China)	6,293	6,654
	103,442	102,012
Deferred income tax credit	(3,426)	(3,618)
	100,016	98,394

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB368,151,000 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 2023 and 2022.

	For the six months ended 30 June	
	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Profit attributable to owners of the Company	368,151	318,322
Weighted average number of ordinary shares in issue (thousands)	1,280,784	1,280,784
Earnings per share	RMB0.29	RMB0.25

11. DIVIDENDS

The Board does not declare the distribution of an interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: Nil).

On 22 March 2023, the Board proposed a cash dividend in respect of the year ended 31 December 2022 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 2022 annual general meeting (the "AGM") of the Company held on 15 June 2023. These dividends have been paid on 14 August 2023.

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

For the six months ended 30 June 2023, the additions to right-of-use assets of the Group was RMB98,127,000 (corresponding period in 2022: RMB13,829,000).

For the six months ended 30 June 2023, the additions to property, plant and equipment of the Group was approximately RMB62,342,000 (corresponding period in 2022: RMB52,147,000).

13. TRADE AND BILLS RECEIVABLES

	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Trade receivables		
— third parties	847,003	820,226
— related parties (Note 18(c))	250,295	270,565
	1,097,298	1,090,791
Bills receivables	349,791	454,083
	1,447,089	1,544,874
Less: provision for impairment		
— third parties	(37,018)	(43,742)
— related parties (Note 18(c))	(5,331)	(3,883)
	(42,349)	(47,625)
Trade and bills receivables, net	1,404,740	1,497,249

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 2023 and 31 December 2022, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Within 4 months	1,019,346	1,256,595
Over 4 months but within 1 year	299,779	125,553
Over 1 year but within 2 years	101,963	136,440
Over 2 years but within 3 years	8,128	4,708
Over 3 years	17,873	21,578
	1,447,089	1,544,874

14. SHARE CAPITAL

	30 June 2023 (Unaudited)		31 December 2022 (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 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Trade payables		
— third parties	872,546	797,845
— related parties (Note 18(c))	36,873	25,388
	909,419	823,233
Bills payables	—	—
Trade and bills payables	909,419	823,233

15. TRADE AND BILLS PAYABLES (CONT'D)

As at 30 June 2023 and 31 December 2022, the ageing analysis of trade and bills payables based on invoice date was as follows:

	30 June 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Within 4 months	784,279	725,107
Over 4 months but within 1 year	119,935	92,490
Over 1 year but within 2 years	1,483	1,824
Over 2 years but within 3 years	170	2
Over 3 years	3,552	3,810
	909,419	823,233

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

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 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 for the reportable segments for the six months ended 30 June 2023 is as follows:

(Unaudited)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All others RMB'000	Total RMB'000
Segment revenue	2,555,486	724,623	1,106,180	4,386,289
Inter-segment revenue	(32,367)	-	(407,507)	(439,874)
Revenue from external customers	2,523,119	724,623	698,673	3,946,415
Timing of revenue recognition				
At a point in time	2,523,009	722,628	692,837	3,938,474
Over time	110	1,995	5,836	7,941
	2,523,119	724,623	698,673	3,946,415
Profit for the period	270,961	266,988	22,048	559,997
Interest income	9,961	26,344	3,177	39,482
Interest expense	(22,246)	(2,316)	(344)	(24,906)
Depreciation of property, plant and equipment	(48,530)	(6,547)	(33,428)	(88,505)
Depreciation of right-of-use assets	(12,604)	(27,687)	(3,632)	(43,923)
Amortisation of other long-term assets	(2,067)	(1,491)	(551)	(4,109)
Provision for impairment of inventories	(10,581)	-	(558)	(11,139)
Reversal of/(provision for) impairment of receivables	725	6,261	(1,826)	5,160
Share of gains/(losses) of investments accounted for using the equity method	2,232	(438)	-	1,794
Income tax expense	(41,757)	(49,854)	(8,405)	(100,016)
Additions to non-current assets ⁽¹⁾	72,790	55,967	38,975	167,732

⁽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 2023 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	7,071,559	3,693,380	2,315,294	13,080,233
Investments accounted for using the equity method	21,584	14,656	-	36,240
Total liabilities	2,748,821	321,131	702,940	3,772,892

16. SEGMENT INFORMATION (CONT'D)

The segment information provided to the Board 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)
Depreciation 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 gains/(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 31 December 2022 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	6,207,899	3,704,062	2,572,807	12,484,768
Investments accounted for using the equity method	19,221	14,970	–	34,191
Total liabilities	2,316,608	422,491	728,731	3,467,830

Sales between segments are carried out at arm's length. The revenue from external parties reported to the Board 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 RMB2,894,892,000 (31 December 2022: RMB2,882,589,000), and the total of these non-current assets located in other countries and regions is RMB484,115,000 (31 December 2022: RMB460,424,000).

16. SEGMENT INFORMATION (CONT'D)

During the six months ended 30 June 2023 and 2022, 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	
	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Entities under control of ultimate holding company (excluding the Group)	1,026,204	923,643
Customer A	458,794	339,562
	1,484,998	1,263,205

17. COMMITMENTS

(a) CAPITAL COMMITMENTS

As of 30 June 2023, the Group had capital commitments of RMB73,823,000 which were contracted but not provided for in the unaudited condensed consolidated interim financial information of the Group (31 December 2022: RMB65,787,000).

(b) OPERATING LEASE COMMITMENTS

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

As of 30 June 2023, 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 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Not later than one year	12,086	2,839

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	
	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Trademark license fee (<i>Note (i)</i>)	2,200	2,025
Additions to right-of-use assets		
— Property, plant and equipment (<i>Note (ii)</i>)	35,023	—
Interest on lease liabilities		
— Property, plant and equipment (<i>Note (ii)</i>)	753	270
— Land use right (<i>Note (iii)</i>)	501	652

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 2022, the Company renewed the property leasing framework agreement with the ultimate holding company, for a term of three years from 1 January 2023 to 31 December 2025. 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 expenditure 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	
	2023 (Unaudited) RMB'000	2022 (Unaudited) RMB'000
Sales of Chinese medicine related products (Note (i))	1,020,666	922,403
Purchases of Chinese medicine related products (Note (ii))	74,646	155,060
Purchases of products for exclusive distributorship (Note (iii))	11,415	5,783
Advertising services income (Note (iv))	5,538	1,240
Property leasing expense (Note (a)(ii))	1,997	2,028
Additions to right-of-use assets (Note (a)(ii))	10,882	–
Interest on lease liabilities (Note (a)(ii))	288	65

Notes:

- (i) On 28 November 2022, 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. The renewed agreement was approved at the extraordinary general meeting of the Company on 22 December 2022 and for a term of three years from 1 January 2023 to 31 December 2025.
- (ii) On 28 November 2022, the Company renewed the master procurement agreement with the ultimate holding company. Pursuant to the agreement, the terms and conditions procured by the Group from the ultimate holding company's subsidiaries and joint ventures shall not be inferior to the price of the procurement from any independent third party or fair market conditions (whichever is better). The renewed agreement was approved at the extraordinary general meeting of the Company on 22 December 2022 and for a term of three years from 1 January 2023 to 31 December 2025.
- (iii) Tong Ren Tang Chinese Medicine renewed the 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 22 March 2023, 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 2023 to 31 December 2025. 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 2023 (Unaudited) RMB'000	31 December 2022 (Audited) RMB'000
Amounts due from related parties (Note (i)):		
Ultimate holding company		
Trade receivables, net	180	13
Other financial assets at amortised cost	868	736
	1,048	749
Subsidiaries and joint ventures of the ultimate holding company		
Trade receivables, net	244,784	266,669
Other financial assets at amortised cost	1,026	866
Prepayments	1,915	1,489
	247,725	269,024
Amounts due to related parties (Note (i)):		
Subsidiaries and joint ventures of the ultimate holding company		
Trade payables	36,873	25,388
Other payables	126,240	33,229
Contract liabilities	947	8,498
	164,060	67,115
Lease liabilities		
Ultimate holding company and its subsidiaries (Note (a)(iii)), (Note (a)(iii))	69,108	23,422
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 declare the distribution of an interim dividend for the six months ended 30 June 2023 (corresponding period in 2022: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

2023 is a critical year for the Group to fully implement the “14th Five Year Plan”. During the Reporting Period, the Group focused on its core competitive advantages of “branding, variety, and quality”, adapted to the new normal of the traditional Chinese medicine industry, thoroughly implemented the strategy for “major varieties”, carried out in-depth transformation and upgrade of marketing models, enhanced the effectiveness of management systems, and diversified growth areas, achieved the set targets and provided strong support for the high-quality development during the “14th Five Year Plan”. For the six months ended 30 June 2023, the Group’s revenue amounted to RMB3,946,415,000, representing an increase of 30.91% compared to RMB3,014,688,000 for the corresponding period last year; the Group’s net profit amounted to RMB559,997,000, representing an increase of 23.84% compared to RMB452,209,000 for the corresponding period last year; and net profit attributable to owners of the Company amounted to RMB368,151,000, representing an increase of 15.65% compared to RMB318,322,000 for the corresponding period last year.

During the Reporting Period, in line with the work principle of “safeguarding variety, demand, quality and targets” and with a particular focus on market demand, the Group prioritized its production and organized the supply of raw materials, packaging materials, auxiliary materials and other supplies based on the urgency of the market for the products, orderly coordinated the production capacity of Beijing and Hebei, and fully met the market demand for a wide range of products. In the first half of the year, the Company’s Daxing Branch Factory carried out in-depth industrial and commercial connection, advanced its work on production and supply, developed scientific plans for production, explored in-depth the production potential of products, achieved full-load operation of production lines, and ensured stable supply of “major varieties” such as Liuwei Dihuang Pills (六味地黃丸) and Jinkui Shenqi Pills (金匱腎氣丸). Beijing Tong Ren Tang Technologies (Tangshan) Co., Ltd (“**Tong Ren Tang Technologies Tangshan**”) closely monitored the production progress of “major varieties” such as Shengmai Liquor (生脈飲口服液), and steadily increased the production capacity by adding night shifts. In the first half of 2023, the Company’s overall output volume and output value both increased compared with the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

BUSINESS REVIEW (CONT'D)

During the Reporting Period, in the face of challenges and opportunities brought about by the transformation and development of the industry, the Group continued to adhere to the “major varieties” strategy, based on the theme of “300 Years of Imperial Medicine in Tong Ren Tang”, further expanded the coverage of the “Glow Campaign (煥彩行動)”, and promoted the comprehensive empowerment of both online and offline through integrating channels, strengthening control and focusing on the end-users, which drove continuous growth of its sales of products. During the Reporting Period, according to consumer needs, the Group developed effective marketing strategies and launched themed marketing campaigns such as “300 Years of Imperial Medicine”, “Essential medicine to keep in your home in case of common cold”, “Imperial Medicine of Tong Ren Tang, Jiao for Health Preservation”. In respect of core products such as Shengmai Liquor (生脈飲口服液) and Jiawei Xiaoyao Pills (加味逍遙丸), the Group launched customized promotional campaigns and cooperated with platforms such as Youku and Mango TV to continuously increase the exposure of the “major varieties” through variety show sponsorships and boost the sales volume of the products. At the same time, through industry events such as “Xidinghui (西鼎會)”, “Xihu Forum (西湖論壇)” and “China Brand Expo (中國品牌博覽會)”, the Group continued to strengthen its cooperation and adhesion with end-users and enhance the influence of its brands and products. In terms of channels, the Group continued to deepen its cooperation with mainstream strategic customers such as Jointown and CR Pharmaceutical, and established a solid relationship with the top 100 chain enterprises. The Group also actively carried out the “flag-planting operation” to promote the rollout of its products and enhance the market vitality of its products. In addition, in order to promote the organic integration of online and offline, the Group leveraged on e-commerce platforms such as Alibaba and JD.com to strengthen the penetration and promotion of its products through e-commerce promotions such as the “Lunar New Year’s Shopping Festival” and “618”, and launched advertisements and promotion of products, such as Jingzhi Niu Huang Jiedu Tablets (京製牛黃解毒片) and Yongshenghe Ejiao (永盛合阿膠), on Douyin and Xiaohongshu, which effectively enhanced the competitiveness of the products in the market and marketing dynamics.

During the Reporting Period, there were 8 product lines of the Group achieving a single-product sales amount of more than RMB100 million; 31 product lines achieving a single-product sales amount between RMB10 million to RMB100 million; 13 product lines achieving a single-product sales amount between RMB5 million to RMB10 million. Among major products, the sales revenue of series of Ganmao Qingre Granules (感冒清熱顆粒), Shengmai Liquor (生脈飲), Ejiao (阿膠), Jinkui Shenqi Pills (金匱腎氣丸) and Niu Huang Jiedu Tablets (牛黃解毒片) increased by 158.11%, 70.86%, 55.88%, 22.78% and 13.36%, respectively, as compared with the corresponding period of the previous year. Meanwhile, benefiting from the “major varieties” development strategy, the sales revenue of Zhibai Dihuang Pills (知柏地黃丸) series and Fuzi Lizhong Pills (附子理中丸) series achieved double-digit growth as compared with the corresponding period of the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

BUSINESS REVIEW (CONT'D)

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 Group continued to explore potential in the research and development of innovative traditional Chinese medicine, the cultivation of “major varieties”, the development of classic prescriptions and the research and development of improved new medicines. The Group continued to promote the scientific research and cultivation of Qishen Granules (芪參顆粒), Paediatric Cough Granules (小兒清肺止咳顆粒), and Lotus Seed Liquor (清心蓮子飲). Meanwhile, the Group strengthened the clinical safety and efficacy research of its “major varieties”, and pressed on with the clinical research of a number of “major varieties” such as the Zhuangyao Jianshen Pills (壯腰健腎丸) and the Xihuang Pills (西黃丸), laying a sound scientific research foundation for the development of the Group's products.

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. In the first half of the year, with the gradual relaxation of epidemic prevention and control policies in Hong Kong, the overall economy of Hong Kong also showed a steady recovery. During the Reporting Period, Tong Ren Tang Chinese Medicine seized market opportunities, opened up new source of customers, further developed its target market segments, continuously increased marketing efforts for its popular and best-selling products, and improved its sales management capabilities at the retail end of the market. At the same time, Tong Ren Tang Chinese Medicine steadily expanded the retail market in Hong Kong, actively conducted market research, stayed orientated towards consumer demand and added a new retail terminal at Tseung Kwan O Plaza in Hong Kong. Furthermore, Tong Ren Tang Chinese Medicine continuously promoted the integration of online and offline diversified channels, maintained the functions of its own e-commerce platform and cross-border e-commerce platform, improved the online and offline product sales network and developed a business model fit for the post-epidemic era. For the six months ended 30 June 2023, Tong Ren Tang Chinese Medicine and its subsidiaries achieved sales revenue of RMB724,623,000, representing a year-on-year increase of 39.00%, and net profit attributable to owners of Tong Ren Tang Chinese Medicine was RMB236,430,000, representing a year-on-year increase of 32.55%.

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 held as to 51% by the Company, respectively. During the Reporting Period, in order to satisfy the more diversified health needs of consumers, Nansanhuan Zhonglu Drugstore established a cooperative relationship with Tongrentang Internet Hospital and opened up services such as online consultation on medication, prescription and tablet dispensing to provide consumers with a more convenient and efficient service experience. In the first half of the year, Tong Ren Tang Second Traditional Chinese Medicine Hospital continued to improve its medical service capacity and quality of service and optimized its treatment protocols. In addition to further improving its specialized treatment services such as acupuncture, fire cupping and point injections, it added new services of heart examination and echocardiogram. Also, the "Incubation Insomnia Three-in-One Integrated Treatment Room" was set up to further improve the standard of diagnosis and treatment of specialized diseases. During the six months ended 30 June 2023, the two subsidiaries, in aggregate, achieved sales revenue of RMB124,949,000, representing a year-on-year increase of 32.76%.

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, in accordance with the requirement of "genuine planting with genuine management", the six subsidiaries continued to enhance the scientific and professionalism of cultivation of different varieties based on the characteristics of the varieties, from different aspects such as seedling breeding, planting management and processing technology. At the same time, the subsidiaries started planting new species of local herbs such as spine date seed, anemarrhena, chrysanthemum, and continued to work on the construction of the Chinese herbal medicine traceability system to strictly control the quality of raw materials from the source. During the six months ended 30 June 2023, the six subsidiaries engaged in production of Chinese medical raw materials achieved sales revenue of RMB175,887,000, representing a year-on-year increase of 14.23%.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2023, the Group had a total of 4,030 employees (31 December 2022: 4,089 employees), of which 1,973 were employees of the Company (31 December 2022: 2,001 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 performance, 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 welfares 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 2023, the Group's cash and cash equivalents amounted to RMB4,064,607,000 (31 December 2022: RMB3,721,668,000) in total.

As at 30 June 2023, the Group's short-term borrowings amounted to RMB34,300,000 (31 December 2022: RMB235,300,000), carrying an interest rate of 3.721% (2022: 3.393%) per annum. The current portion of long-term bank borrowing amounted to RMB42,153,000 (31 December 2022: RMB15,196,000) in total, accounting for 2.03% (31 December 2022: 7.22%) of the total liabilities. The non-current portion of long-term borrowings amounted to RMB1,387,230,000 (31 December 2022: RMB1,221,797,000), carrying an annual interest rate of long-term bank borrowings at 2.795% (2022: 2.947%). The long-term borrowings represented 36.77% (31 December 2022: 35.23%) of the total liabilities. Of all the borrowings of the Group as at 30 June 2023, RMB76,453,000 will mature within one year and RMB1,387,230,000 will mature after one year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL REVIEW (CONT'D)

Capital Structure

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

As at 30 June 2023, total assets of the Group amounted to RMB13,080,233,000 (31 December 2022: RMB12,484,768,000). The funds of the Group comprised non-current liabilities of RMB1,626,680,000 (31 December 2022: RMB1,416,187,000), current liabilities of RMB2,146,212,000 (31 December 2022: RMB2,051,643,000), equity attributable to owners of the Company of RMB6,692,191,000 (31 December 2022: RMB6,482,751,000) and non-controlling interests of RMB2,615,150,000 (31 December 2022: RMB2,534,187,000).

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 2023, the Group's liquidity ratio (the ratio of current assets to current liabilities) was 4.49 (31 December 2022: 4.42), reflecting that the Group had sufficient financial resources. The Group's quick ratio (the ratio of liquid assets to current liabilities) was 2.96 (31 December 2022: 2.77), 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 7.52 (31 December 2022: 6.79), 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 5.49 (31 December 2022: 3.96), 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 2.47 (31 December 2022: 1.97), 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 2023, the Group's gearing ratio (the ratio of total borrowings to equity attributable to owners of the Company) was 0.22 (31 December 2022: 0.23).

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL REVIEW (CONT'D)

Expenses and Expense Ratio

As of 30 June 2023, the Group's distribution expenses amounted to RMB618,362,000 (30 June 2022: RMB496,428,000) and the distribution expense ratio, i.e. the ratio of distribution expenses to revenue, was 0.16 (30 June 2022: 0.16). The distribution expenses ratio has no significant changes compared to the corresponding period last year and is reasonable.

As of 30 June 2023, the Group's administrative expenses amounted to RMB313,311,000 (30 June 2022: RMB226,348,000) and the administrative expense ratio, i.e. the ratio of administrative expenses to revenue, was 0.08 (30 June 2022: 0.08). The administrative expenses ratio has no significant changes compared to the corresponding period last year and is reasonable.

As of 30 June 2023, the Group's finance income amounted to RMB17,589,000 (30 June 2022: finance cost amounted to RMB9,324,000) and the financial costs ratio, i.e. the ratio of financial income to revenue, was 0.0045 (30 June 2022: the ratio of financial cost to revenue was 0.0031). The decrease in financial costs was mainly due to the increase in finance income.

Gross Margin and Net Profit Margin

As of 30 June 2023, the gross margin of the Group was 39.71% (30 June 2022: 42.90%), while the net profit margin was 14.19% (30 June 2022: 15.00%).

Research and Development Expenses

As of 30 June 2023, the research and development expenses (excluding employee benefit expense, depreciation and amortisation expense) of the Group were RMB47,794,000 (30 June 2022: RMB26,954,000), accounting for 0.51% of net assets (30 June 2022: 0.32%) and 1.21% of revenue (30 June 2022: 0.89%), respectively. The research and development expenses including employee benefit expense and depreciation and amortisation expense were RMB69,768,000 (30 June 2022: RMB44,603,000), accounting for 0.75% of net assets (30 June 2022: 0.53%) and 1.77% of revenue (30 June 2022: 1.48%), respectively.

Capital Expenditure

As of 30 June 2023, the Group's capital expenditure incurred amounted to RMB66 million (30 June 2022: RMB68 million), primarily used for the purchase of equipment.

Pledges over Assets of the Group

As at 30 June 2023, none of the Group's assets was pledged as security for any liabilities (31 December 2022: RMB8,448,000 of the Group's assets was pledged as security for current portion of non-current liabilities of RMB47,000).

Contingent Liabilities

As at 30 June 2023, the Group had no contingent liabilities (31 December 2022: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FINANCIAL REVIEW (CONT'D)

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/Future Plans for Significant Investments or Purchase of Capital Assets

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.

No Material Change

Since the publication of the latest annual report for the year ended 31 December 2022 on 27 April 2023, there have been no material changes to the Company's business.

FUTURE PROSPECTS

In recent years, a number of favourable policies for the traditional Chinese medicine industry have been launched and the development of traditional Chinese medicine has been elevated to the national strategic level. In view of the dual attributes of traditional Chinese medicinal products as consumer goods and healthcare products, against the backdrop of the aging population and escalating healthcare consumption in China, the industry has huge potential for long-term stable growth and has a promising future. In the second half of the year, the Group will continue to adhere to the working principles of "deepening, coordination, linkage and development", and comprehensively promote industrial and commercial connection, process convergence, management linkage and innovative operation, so as to ensure the completion of various tasks and targets for the year in high quality.

In terms of production, all production units will continue to aim at "safeguarding supply, variety and output value", strengthen market awareness, pay attention to the pharmaceutical needs in the post-epidemic era and changes in market demand, maintain flexible deployment of production plans, further improve industrial and commercial connection, launch themed marketing activities and improve the supply capacity of products. At the same time, the Group will further explore the production commonalities among various production units, promote the profound integration of production resources through product transfer, so as to facilitate complementarity of edge of production capacity, and further improve the efficiency of production and operation.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

FUTURE PROSPECTS (CONT'D)

In terms of sales, the Group will stay aligned with the “major varieties strategy”, further promote themed marketing activities such as the “Glow Campaign (煥彩行動)” and “300 Years of Imperial Medicine (御藥300年)”, improve marketing capabilities, enlarge market coverage and accelerate the high-quality transformation and development of marketing. At the same time, the Group will strengthen channel construction in a comprehensive manner, ramp up its efforts to “empower the terminal”, strengthen the connection with key distributors, top 100 chains, and leading chains in the province, and launch various forms of terminal activities, such as terminal promotions, counter launch, advertisements, trade fairs, and symposiums, so as to enhance terminal marketing capability. Also, targeting provinces in which the Group has less presence and blank markets, the Group will carry out the “flag-planting operation” to enhance the flexibility and enthusiasm of regional terminal activities, and achieve the target of “expanding chains and increasing market penetration” in an orderly manner, so as to stimulate the vitality of terminals, enhance the market penetration of different varieties, and increase the sales volume of products.

OTHER INFORMATION

Corporate Governance Code

During the Reporting Period, the Company had complied with the code provisions contained in Part 2 of 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 Reporting 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 Governance, 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 Senior Management

On 14 December 2022, Ms. Guo Ya Qing, a non-executive Director tendered her resignation from the position due to work changes. The resignation of Ms. Guo Ya Qing has taken effect from 16 February 2023. At the extraordinary general meeting held on 16 February 2023, Ms. Wang Chun Rui was appointed as a non-executive Director of the Eighth Session of the Board, with a term commencing from 16 February 2023 and until the end of this session of the Board, subject to re-election at the end of the term.

On 15 June 2023, Mr. Wang Yu Wei, an executive Director and the general manager of the Company (the "**General Manager**"), tendered his resignation from the position due to work adjustments. The resignation of Mr. Wang Yu Wei as the General Manager has taken effect from 15 June 2023, and his resignation as an executive Director will take effect when the new executive Director being elected at the extraordinary general meeting of the Company which will be held on 25 August 2023 (the "**EGM**"). The appointment of Mr. Chen Jia Fu as the General Manager has taken effect from 15 June 2023, and the appointment of him as an executive Director of the Eighth Session of the Board will take effect after being approved by the shareholders of the Company at the EGM, with a term commencing from 25 August 2023 and until the end of this session of the Board, subject to re-election at the end of the term.

For details of the aforesaid changes, please refer to the circulars of the Company dated 18 January 2023 and dated 4 August 2023, the announcements of the Company dated 14 December 2022, 16 February 2023 and 15 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

OTHER INFORMATION (CONT'D)

Change in Director's Information

The following Director's information changed during the Reporting Period, and the latest information are as follows:

Mr. Ting Leung Huel, Stephen, aged 70, MH, FCCA, FCPA (Practising), ACA, CTA (HK), FHKIoD. He is a non-executive director of Chow Sang Sang Holdings International Limited and an independent non-executive director of other five listed companies namely Tongda Group Holdings Limited, New Silkroad Culturaltainment Limited, Computer and Technologies Holdings Limited, Dongyue Group Limited and China SCE Group Holdings Limited, respectively. Mr. Ting is an accountant in public practice and a partner of Messrs. Ting Ho Kwan & Chan, Certified Public Accountants (Practising). Mr. Ting has been appointed as an independent non-executive Director since 11 October 2000.

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.

Change of Joint Company Secretaries

On 27 April 2023, Ms. Jia Ze Tao and Ms. So Shuk Yi, Betty from SWCS Corporate Services Group (Hong Kong) Limited ("**SWCS**") (service agency hired by the Company) have ceased to serve as the joint company secretaries of the Company due to work adjustments. On the same day, Mr. Li Yijun and Ms. Yung Mei Yee of SWCS have been appointed as the joint company secretaries of the Company, both with effect from 4 May 2023. For details of the aforesaid changes, please refer to the announcement of the Company dated 27 April 2023.

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 2023 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 2023.

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

As at 30 June 2023, 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 2023, 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 to corporation controlled 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	7,649,000 (L) <i>(Note 1)</i>	–	1.22%	0.60%
Total		617,129,000 (L) <i>(Note 1)</i>	93.46%	1.22%	48.18%
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
- (2) 600,000,000 shares held by Tong Ren Tang Holdings were held through Tong Ren Tang Ltd. As at 30 June 2023, 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 7,649,000 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 2023, 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.

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 2023.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

OTHER INFORMATION (CONT'D)

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 2023 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 Dahuoluo Pills (同仁堂大活絡丸), Tongren Wuji Baifeng Pills (同仁烏雞白鳳丸), and Guogong Wine (國公酒). It also has some minor production lines for the production of granules and water-honeyed pills. These products do not compete with the Group's products in terms of their curative effects. The Company focuses on manufacturing products in new dosage forms which are more competitive compared to western medicine. The Company's main products include Liuwei Dihuang Pills (六味地黃丸), 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.