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Modern Chinese Medicine Group Co., Ltd.

現代中藥集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1643)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS:

- Revenue for the six months ended 30 June 2021 amounted to RMB171.8 million, representing an increase of approximately 8.8% from RMB158.0 million for the six months ended 30 June 2020.
- Gross profit for the six months ended 30 June 2021 amounted to RMB78.6 million, representing an increase of approximately 10.4% from RMB71.2 million for the six months ended 30 June 2020.
- Profit after tax for the six months ended 30 June 2021 amounted to RMB44.1 million, representing an increase of approximately 10.5% from RMB40.0 million for the six months ended 30 June 2020.
- The basic and diluted earnings per share attributable to owners of the Company for the six months ended 30 June 2021 amounted to RMB7.43 cents, representing a decrease of approximately 16.2% from RMB8.87 cents for the six months ended 30 June 2020.

The Board (the “**Board**”) of Directors (the “**Directors**”) of Modern Chinese Medicine Group Co., Ltd. (the “**Company**”) presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2021 (the “**Period**”), together with the comparative figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	4	171,798	157,961
Cost of sales		<u>(93,223)</u>	<u>(86,770)</u>
Gross profit		78,575	71,191
Other income	5	220	184
Selling and distribution expenses		(9,452)	(3,523)
Administrative and other operating expenses		(9,084)	(7,253)
Finance costs	6	(67)	(118)
Listing expenses		<u>—</u>	<u>(5,683)</u>
Profit before tax	6	60,192	54,798
Income tax expenses	7	<u>(16,072)</u>	<u>(14,879)</u>
Profit for the period		44,120	39,919
Other comprehensive income (loss)			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences on consolidation/combination		<u>18</u>	<u>(254)</u>
Total comprehensive income for the period		<u>44,138</u>	<u>39,665</u>
Earnings per share attributable to owners of the Company		RMB cent	RMB cent
Basic and diluted	8	<u>7.43</u>	<u>8.87</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2021 <i>RMB'000</i> (Unaudited)	At 31 December 2020 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	10	43,009	11,565
Intangible assets		437	–
Right-of-use assets		2,289	2,524
Deposits paid for acquisition of property, plant and equipment		9,435	1,887
Deferred tax assets		5,068	4,418
		60,238	20,394
Current assets			
Inventories	11	29,195	33,964
Trade and other receivables	12	84,060	81,709
Bank balances and cash		173,932	73,191
		287,187	188,864
Current liabilities			
Trade and other payables	13	38,692	61,576
Interest-bearing borrowings		–	5,000
Lease liabilities	14	343	335
Income tax payables		8,227	7,312
		47,262	74,223
Net current assets		239,925	114,641
Total assets less current liabilities		300,163	135,035
Non-current liabilities			
Lease liabilities	14	29	203
NET ASSETS		300,134	134,832
Capital and reserves			
Share capital	15	5,010	–*
Reserves		295,124	134,832
TOTAL EQUITY		300,134	134,832

* Represent amount less than RMB1,000.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Reserves						Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Statutory reserve RMB'000	Accumulated profits RMB'000	
At 1 January 2020 (Audited)	–*	–	29,540	(138)	15,113	24,339	68,854
Profit for the period	–	–	–	–	–	39,919	39,919
Other comprehensive loss <i>Item that may be reclassified subsequently to profit or loss</i>							
Exchange differences on combination	–	–	–	(254)	–	–	(254)
Total comprehensive (loss) income for the period	–	–	–	(254)	–	39,919	39,665
At 30 June 2020 (Unaudited)	–*	–	29,540	(392)	15,113	64,258	108,519
At 1 January 2021 (Audited)	–*	842	29,540	1,421	15,113	87,916	134,832
Profit for the period	–	–	–	–	–	44,120	44,120
Other comprehensive income <i>Item that may be reclassified subsequently to profit or loss</i>							
Exchange differences on consolidation	–	–	–	18	–	–	18
Total comprehensive income for the period	–	–	–	18	–	44,120	44,138
Transactions with owners:							
<i>Contributions and distributions</i>							
Issue of shares pursuant to the Global Offering (as defined in Note 15)	1,252	146,550	–	–	–	–	147,802
Issue of shares pursuant to the Capitalisation Issue (as defined in Note 15)	3,758	(3,758)	–	–	–	–	–
Transaction costs attributable to issue of shares	–	(26,638)	–	–	–	–	(26,638)
Total transactions with owners	5,010	116,154	–	–	–	–	121,164
At 30 June 2021 (Unaudited)	5,010	116,996	29,540	1,439	15,113	132,036	300,134

* Represent amount less than RMB1,000.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	24,928	5,900
INVESTING ACTIVITIES		
Interest received	185	40
Payment for purchase of property, plant and equipment	(39,876)	(271)
Payment for acquisition of intangible assets	(437)	–
Net cash used in investing activities	(40,128)	(231)
FINANCING ACTIVITIES		
Advance from the immediate holding company	–	912
Advanced from the Ultimate Controlling Party (as defined in Note 1)	–	7,549
Proceeds from the Global Offering (as defined in Note 15)	147,802	–
Repayment of interest-bearing borrowings	(5,000)	–
Payment of transaction costs attributable to issue of shares	(26,638)	–
Payment of lease liabilities	(166)	(100)
Interest paid	(67)	(118)
Net cash generated from financing activities	115,931	8,243
Net increase in cash and cash equivalents	100,731	13,912
Cash and cash equivalents at the beginning of the reporting period	73,191	35,891
Effect on exchange rate changes	10	(57)
Cash and cash equivalents at the end of the reporting period, represented by bank balances and cash	173,932	49,746

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

Modern Chinese Medicine Group Co., Ltd. (the “**Company**”, together with its subsidiaries collectively referred to as the “**Group**”) was incorporated in the Cayman Islands as an exempted company with limited liability on 12 August 2019. The shares of the Company (the “**Shares**”) were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 15 January 2021 (the “**Listing**”). The address of the Company’s registered office is 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands. The Group’s headquarters is situated at No. 88 Jinwei Road, Chengde City, Hebei Province, the People’s Republic of China (the “**PRC**”).

The Company is an investment holding company and its subsidiaries are principally engaged in the production of proprietary Chinese medicine (“**PCM**”) in the PRC.

The immediate and ultimate holding company of the Company is Modern Biotechnology Group Holdings Co., Ltd. (“**Modern Biotechnology**”), which is incorporated in the British Virgin Islands (the “**BVI**”). In the opinion of the directors of the Company, the ultimate controlling party is Mr. Xie Wei (the “**Ultimate Controlling Party**”).

Pursuant to a group reorganisation (the “**Reorganisation**”) carried out by the Group in preparation for the Listing, the Company became the holding company of the entities now comprising the Group on 26 February 2020. Details of the Reorganisation are set out in the paragraph headed “Reorganisation” of the section headed “History, Development and Reorganisation” of the prospectus of the Company dated 31 December 2020 (the “**Prospectus**”).

The unaudited condensed consolidated statement of profit or loss and other comprehensive income, unaudited condensed consolidated statement of changes in equity and the unaudited condensed consolidated statement of cash flows of the Group for the six months ended 30 June 2021 and 2020 have been prepared on the basis as if the current group structure has been in existence throughout the periods. The condensed consolidated statement of financial position of the Group at 31 December 2020 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the group structure has been in existence as at that date.

The unaudited condensed consolidated financial statements for the six months ended 30 June 2021 (the “**Interim Financial Statements**”) have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” (“**HKAS 34**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rule**”).

The preparation of the Interim Financial Statements in conformity with HKAS 34 requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Interim Financial Statements are unaudited but have been reviewed by the audit committee of the Company (the “**Audit Committee**”).

2. SIGNIFICANT ACCOUNTING POLICIES

The Interim Financial Statements include an explanation of events and transactions that are significant to an understanding of the changes in financial position and financial performance of the Group since 31 December 2020, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards (“**HKFRSs**”) which the collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. They shall be read in conjunction with the audited financial statements of the Group for the year ended 31 December 2020 (the “**2020 Financial Statements**”).

The Interim Financial Statements have been prepared on the historical costs basis and presented in Renminbi (“**RMB**”) and rounded to the nearest thousands (“**RMB’000**”), unless otherwise indicated.

The accounting policies and methods of computation applied in the preparation of the Interim Financial Statements are consistent with those applied in preparing the 2020 Financial Statements except for the adoption of the new/revised HKFRSs further described in the “Adoption of new/revised HKFRSs” section which are relevant to the Group and effective for the Group’s financial period beginning on 1 January 2021.

Adoption of new/revised HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2021 for the preparation of the Interim Financial Statements:

Amendments to HKAS 39, HKFRSs 4, 7, 9 and 16 Interest Rate Benchmark Reform – Phase 2

Other than the above new/revised HKFRSs, at the date of authorisation of the Interim Financial Statements, the Group has not early adopted the new/revised HKFRSs that have been issued but are not yet effective. The Directors do not anticipate that the adoption of the new/revised HKFRSs in future periods will have any material impact on the Group’s consolidated financial statements.

3. SEGMENT INFORMATION

The management of the Company has determined that the Group has only one operating and reportable segment throughout the reporting periods, as the Group manages its business as a whole as the production of PCM in the PRC and the executive directors of the Company, being the chief operating decision-makers of the Group, regularly review the internal financial reports on the same basis for the purposes of allocating resources and assessing performance of the Group.

Segment information is not presented accordingly.

The Company is an investment holding company and the principal place of the Group’s operation is the PRC. All of the Group’s revenue from external customers during the reporting periods is derived from the PRC and almost all of the Group’s assets and liabilities are located in the PRC.

Information about major customer

Revenue from customer individually contributing 10% or more of the total revenue of the Group is as follows:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Customer A	<u>17,941</u>	<u>20,451</u>

4. REVENUE

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within HKFRS 15 <i>At a point in time</i> – Production of PCM	<u>171,798</u>	<u>157,961</u>

5. OTHER INCOME

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest income	185	40
Exchange gain, net	35	29
Sundry income	<u>–</u>	<u>115</u>
	<u>220</u>	<u>184</u>

6. PROFIT BEFORE TAX

This is stated after charging:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Finance costs		
Interest on interest-bearing borrowings	57	114
Interest on lease liabilities	10	4
	<u>67</u>	<u>118</u>
Staff costs (including directors' emoluments)		
Salaries, allowances, discretionary bonus, and other benefits in kind	8,016	6,198
Contributions to defined contribution plans	1,234	966
	<u>9,250</u>	<u>7,164</u>
Other items		
Depreciation of right-of-use assets (charged to "administrative and other operating expenses")	283	95
Depreciation of property, plant and equipment (charged to "cost of sales" and "administrative and other operating expenses", as appropriate)	835	756
Research and development ("R&D") expenses	2,600	3,140
	<u>2,600</u>	<u>3,140</u>

7. INCOME TAX EXPENSES

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax		
PRC enterprise income tax ("PRC EIT")	16,722	15,730
Deferred tax		
Changes in temporary differences	(650)	(851)
Total income tax expenses for the period	<u>16,072</u>	<u>14,879</u>

The Group's entities established in the Cayman Islands and the BVI are exempted from income tax of those jurisdictions.

The Group's entities established in the PRC are subject to PRC EIT at a statutory rate of 25% during the six months ended 30 June 2021 and 2020.

Hong Kong profits tax has not been provided as the Group had no assessable profit arising from Hong Kong during the six months ended 30 June 2021 and 2020.

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company, used in the calculation of basic and diluted earnings per share	44,120	39,919
	<i>'000</i>	<i>'000</i>
<i>Number of shares:</i>		
Weighted average number of ordinary shares for the calculation of basic and diluted earnings per share	593,836	450,000

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share were on the basis as if the Reorganisation and Capitalisation Issue (Note 15) had been effective on 1 January 2020.

Diluted earnings per share are the same as the basic earnings per share as there are no dilutive potential ordinary shares in existence for the six months ended 30 June 2021 and 2020.

9. DIVIDENDS

The Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

10. PRORERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group's capital expenditure on acquisition of property, plant and equipment was approximately RMB32.3 million (31 December 2020: approximately RMB0.5 million) for the expansion of the Group's operations as disclosed in the Prospectus of the Company.

11. INVENTORIES

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Raw materials	15,601	21,646
Work-in-progress	6,073	5,168
Finished goods	7,521	7,150
	<u>29,195</u>	<u>33,964</u>

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Trade receivables		
From third parties	79,687	77,850
Less: Loss allowances	(398)	(389)
	<u>79,289</u>	<u>77,461</u>
Other receivables		
Prepayments (<i>Note</i>)	4,076	4,095
Other deposits and receivables	695	153
	<u>4,771</u>	<u>4,248</u>
	<u>84,060</u>	<u>81,709</u>

Note: The balance as at 30 June 2021 included prepaid R&D expenses of approximately RMB3.2 million (31 December 2020: approximately RMB1.3 million).

The ageing of trade receivables, net of loss allowances, based on invoice date at the end of each reporting period is as follows:

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Within 30 days	38,643	45,628
31 to 60 days	36,266	31,833
61 to 90 days	4,380	–
	<u>79,289</u>	<u>77,461</u>

The Group normally grants credit terms up to 60 days from the date of issuance of invoices.

13. TRADE AND OTHER PAYABLES

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Trade payables		
To third parties	<u>21,794</u>	<u>26,884</u>
Other payables		
Monetary marketing incentives payables (<i>Note i</i>)	7,588	11,184
Value-added tax and other tax payables	2,853	3,713
Salary payables	1,077	952
Accruals and other payables (<i>Note ii</i>)	<u>5,380</u>	<u>18,843</u>
	<u>16,898</u>	<u>34,692</u>
	<u>38,692</u>	<u>61,576</u>

Notes:

- (i) The credit term for the monetary marketing incentives payables are not more than 90 days from the date of issuance of invoices.
- (ii) The balance as at 31 December 2020 included accrued listing expenses of approximately RMB12.4 million.

At the end of each reporting period, the ageing analysis of trade payables based on invoice date is as follows:

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Within 30 days	20,282	25,681
31 to 60 days	1,496	1,165
61 to 90 days	16	38
	<u>21,794</u>	<u>26,884</u>

The trade payables are interest-free and with normal credit terms up to 90 days.

14. LEASE LIABILITIES

	At 30 June 2021 RMB'000 (Unaudited)	At 31 December 2020 RMB'000 (Audited)
Lease liabilities		
Current portion	343	335
Non-current portion	29	203
	<u>372</u>	<u>538</u>

Commitments and present value of lease liabilities:

	At 30 June 2021 Lease payment RMB'000 (Unaudited)	Present value of lease payments RMB'000 (Unaudited)
Amount payable:		
Within one year	352	343
In the second to fifth years inclusive	29	29
	<u>381</u>	<u>372</u>
Less: future finance charges	(9)	-
Total lease liabilities	<u>372</u>	<u>372</u>

	At 31 December 2020	
	Lease payment	Present value of
	<i>RMB'000</i>	lease payments
	(Audited)	<i>RMB'000</i>
		(Audited)
Amount payable:		
Within one year	352	335
In the second to fifth years inclusive	<u>205</u>	<u>203</u>
	557	538
Less: future finance charges	<u>(19)</u>	<u>–</u>
Total lease liabilities	<u><u>538</u></u>	<u><u>538</u></u>

The total cash outflows for leases for the six months ended 30 June 2021 was approximately RMB0.2 million (six months ended 30 June 2020: approximately RMB0.3 million).

15. SHARE CAPITAL

	Notes	Number of shares '000	Amount HK'000	Equivalent to RMB Approximately RMB'000
Ordinary share of HK\$0.01 each				
Authorised:				
At 12 August 2019 (date of incorporation), 1 January 2020 and 30 June 2020	(a)	38,000	380	342
Increase on 18 December 2020	(b)	<u>9,962,000</u>	<u>99,620</u>	<u>84,007</u>
At 31 December 2020, 1 January 2021 and 30 June 2021		<u><u>10,000,000</u></u>	<u><u>100,000</u></u>	<u><u>84,349</u></u>
Issued and fully paid:				
At 12 August 2019 (date of incorporation), 1 January 2020 and 30 June 2020	(a)	–*	–*	–*
Issue of shares pursuant to Capitalisation of loan from Modern Biotechnology	(c)	<u>–*</u>	<u>–*</u>	<u>–*</u>
At 31 December 2020 and 1 January 2021 (Audited)		–*	–*	–*
Issue of shares pursuant to the Capitalisation Issue	(d)	<u>450,000</u>	<u>4,500</u>	<u>3,758</u>
Issue of shares pursuant to the Global Offering	(e)	<u>150,000</u>	<u>1,500</u>	<u>1,252</u>
At 30 June 2021 (Unaudited)		<u><u>600,000</u></u>	<u><u>6,000</u></u>	<u><u>5,010</u></u>

* Represent amount less than RMB1,000.

Notes:

- (a) The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 August 2019. Upon its incorporation, the authorised share capital of HK\$380,000 was divided into 38,000,000 ordinary shares at HK\$0.01 each and 1 ordinary share was issued.
- (b) Pursuant to the resolution of the shareholders passed on 18 December 2020, inter-alia, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of an additional 9,962,000,000 shares of HK\$0.01 each and the Capitalisation Issue (as defined below) was conditionally approved.
- (c) Pursuant to the Reorganisation, 99 shares were allotted and issued on 18 December 2020, and credited as fully paid by the Company to Modern Biotechnology in consideration of the capitalisation of loan in the amount of HK\$1,000,000 (equivalent to approximately RMB842,000) owing by the Company to Modern Biotechnology. Accordingly, the excess of the carrying amount of the loan capitalised over the nominal value of 99 ordinary shares was credited to the share premium.
- (d) Pursuant to the resolution in writing of the Company's shareholders passed on 18 December 2020, subject to the share premium account of the Company being credited as a result of the offering of the Company's shares, the Directors were authorised to allot and issue a total of 449,999,900 shares of HK\$0.01 each to the existing shareholders, credited as fully paid at par by way of capitalisation of the sum of HK\$4,499,999 standing to be credit of the share premium account of the Company (the "**Capitalisation Issue**") and the shares to be allotted and issued pursuant to this resolution shall carry the same rights as all shares in issue (save for the right to participate in the Capitalisation Issue). The Capitalisation Issue was fully completed on 15 January 2021.
- (e) On 15 January 2021, the shares of the Company were listed on the Main Board of the Stock Exchange and 150,000,000 new ordinary shares of HK\$0.01 each were issued at HK\$1.18 per share by way of global offering (the "**Global Offering**"). The gross proceeds from the Global Offering amounted to HK\$177,000,000 (equivalent to approximately RMB147,802,000). The expenses attributable to issue of shares pursuant to the Global Offering of approximately HK\$31,891,000 (equivalent to approximately RMB26,638,000) were recognised in the share premium account of the Company.

16. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in the Interim Financial Statements, during the six months ended 30 June 2021 and 2020, further information of the related party transaction is set out below.

Remuneration for key management personnel (including directors of the Company) of the Group:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Salaries, allowances, discretionary bonus, and other benefits in kind	872	528
Contributions to defined contribution plans	141	92
	<u>1,013</u>	<u>620</u>

17. COMMITMENTS

Capital expenditure commitments

	At 30 June	At 31 December
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Contracted but not provided net of deposits paid for acquisition of property, plant and equipment	<u>20,198</u>	<u>7,548</u>

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL OVERVIEW

The Group is principally engaged in the production of PCM, in particular over-the-counter and prescribed medicines intended for use by the middle-aged and the elderly in the PRC. The Shares were successfully listed on the Main Board of the Stock Exchange on the date of Listing, which marked a significant milestone for the development of the Group. The Listing is considered as an important channel which would not only allow the Group to access the capital market for fund raising; and it would also enhance the credibility of the Group with its suppliers, distributors and other business partners, as well as the Group's ability to recruit, motivate and retain key management personnel. The Board is confident that the net proceeds from the Global Offering will assist the implementation of the Group's future development and business strategies as set out in the Prospectus.

The Group is considered as one of the leading companies engaged in the production of PCM in terms of the sales of Qi (氣)-deficiency and blood-stasis PCM pills (補氣補血類中成藥丸) and cardiocerebrovascular PCM capsules (心腦血管中成藥膠囊) in Northeast, the PRC in 2019. Generally, the intended therapeutic effects of the Group's major products are for the treatment and/or alleviation of (i) Qi (氣)-deficiency and blood-stasis condition; (ii) cardio-cerebrovascular condition; (iii) digestive and gastrointestinal condition; and (iv) gynaecological condition. At the same time, some of the Group's major products are believed to be having the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness.

The Group has currently established a distribution network of over 80 distributors covering about 40 cities in the PRC, which are in turn served and administered by over 35 marketing staff members with relevant experience in the traditional Chinese medicine industry. It is believed that the Group's distribution network and distributorship model will continue to support further development of the Group's business operations in the foreseeable future. In addition, it is also considered that the distribution network would not only help to develop the business operations geographically from the Northeast to other areas in the PRC, but also allow the Group to penetrate in reasonably extensive width and breadth in the Northeast, the PRC, where the Group is strategically targeting, in view of the Group's established footprint and the large population there.

OUTLOOK AND PROSPECTS

While the COVID-19 pandemic may have posed difficulties to the production and operation of some pharmaceutical companies, the industry overall is still experiencing solid growth with favourable support from various government policies promoting the PCM industry. The pandemic has also brought the outstanding contribution of the traditional Chinese medicine to the limelight; certain PCM products have been recommended by the PRC Government for the treatment of the symptoms of COVID-19 and/or similar illness.

The Group has confidence in the future prospects of the economy of the PRC as well as the PCM industry. We believe that various supportive policies promulgated to foster new investments and consumption growth will bring opportunities to the PCM industry. Leveraging on our product expertise, established brand name and seasoned management team, and through our experienced sales and marketing team, we will continue to implement our long-term growth strategies, seize all the developmental opportunities arising from the promotion of inheritance and innovation of traditional Chinese medicine by the PRC Government and strive to consolidate the Group's market position, which would create greater value for our shareholders.

In addition, the COVID-19 pandemic has raised public awareness of healthcare, altered public's consumption pattern and shopping habits. The Group will continue to evaluate and consider the development of online channels by identifying distributors with such capability. The Group aims to further strengthen its brand image and capture potential growth from online and offline integration.

FINANCIAL REVIEW

The Group posted a consolidated revenue of approximately RMB171.8 million for the Period, representing an increase of approximately RMB13.8 million or 8.8% as compared to the six months ended 30 June 2020. The increase in revenue was primarily driven by the surge in revenue generated from the sales of three of our major products, namely Vigour and Vitality Supplement Pill (補腎填精丸), Kidney Invigoration Pill (金匱腎氣丸) and Circulation Enhancement Pill (氣血雙補丸) due to the target marketing tactics by our existing distributors. The increment of the sales of these three products has mitigated the effect of the drop of demands of those products which were believed to have an intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness, namely Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸), during the Period.

Vigour and Vitality Supplement Pill (補腎填精丸) and Circulation Enhancement Pill (氣血雙補丸) were the two top selling products for both the Period and the six months ended 30 June 2020. These two products contributed approximately 46.4% and 30.5% of the Group's total revenue for the Period and the six months ended 30 June 2020, respectively. Such increase in percentage of revenue for the Period is considered to be attributable to the significant reduction in the sales of the top selling products in the corresponding period in 2020, namely Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸), which were believed to have an intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness.

The Northeast in the PRC remained as the largest contributor to the Group's total revenue for the Period. It contributed over 50.0% of the total revenue of the Group for both of the Period and the six months ended 30 June 2020. The increase in total revenue of the Group by approximately 8.8% for the Period as compared to the six months ended 30 June 2020 was mainly due to the growth of sales in the Northeast and Huanan (華南), the PRC.

The Group manages the overall gross profit margin to ensure the overall profitability of the Group while allowing flexible price adjustments for individual products. The overall gross profit margin for the Period increased slightly to approximately 45.7% as compared to approximately 45.1% for the six months ended 30 June 2020. It was mainly due to the increase in the gross profit margin of Vigour and Vitality Supplement Pill (補腎填精丸) and Liver Detox Tablet (護肝片), which was resulted from the decrease in the purchase price of Deer Antler (鹿茸), one of the major ingredients for the production of Vitality Supplement Pill (補腎填精丸), and the increase in the net selling price of Liver Detox Tablet (護肝片).

OPERATING COSTS AND EXPENSES

Selling and distribution expenses of the Group increased by approximately 168.3% from approximately RMB3.5 million for the six months ended 30 June 2020 to approximately RMB9.5 million for the Period. It was mainly due to the increase in advertisement expenses by approximately RMB5.5 million spent on multiple marketing campaign for promoting the Group's brand name during the Period.

Administrative and other operating expenses primarily consist of staff costs, other taxes, legal and professional fees, and research and development costs. There was an increase of approximately 25.2% in the administrative and other operating expense for the Period in comparison with those of the six months ended 30 June 2020. This was mainly due to the increase of approximately RMB0.4 million in staff salaries and RMB0.5 million in professional fee for the Period.

Finance costs decreased by approximately RMB51,000 to RMB67,000 for the Period as compared to the six months ended 30 June 2020 which was primarily due to the repayment of loan in late March 2021.

OPERATING RESULTS

Profit after tax increased by approximately 10.5% from approximately RMB40.0 million for the six months ended 30 June 2020 to approximately RMB44.1 million for the Period which was primarily due to the increase in sales of Vigour and Vitality Supplement Pill (補腎填精丸), Kidney Invigoration Pill (金匱腎氣丸) and Circulation Enhancement Pill (氣血雙補丸), which were the major products of the Group during the Period.

LIQUIDITY AND FINANCIAL RESOURCES

The Shares were successfully listed on the Main Board of the Stock Exchange on the date of Listing. There has been no change in the capital structure of the Group since then. The Group now funds its business and working capital requirements by using a balanced mix of internal resources, bank borrowings and the net proceeds from the Global Offering. The funding mix will be adjusted depending on the costs of funding and the actual needs of the Group.

As at 30 June 2021, the Group held total assets of approximately RMB347.4 million (31 December 2020: approximately RMB209.3 million), including bank balances and cash of approximately RMB173.9 million (31 December 2020: approximately RMB73.2 million).

As at 30 June 2021, the Group had total liabilities of approximately RMB47.3 million (31 December 2020: approximately RMB74.4 million) which comprises mainly of trade and other payables amounting to approximately RMB38.7 million (31 December 2020: approximately RMB61.6 million).

As at 30 June 2021, the gearing ratio, expressed as a percentage of total loans (including interest-bearing borrowings and lease liabilities) over total equity, was about 0.1% (31 December 2020: approximately 4.1%). This significant reduction was mainly resulted from the repayment of interest-bearing borrowings amounting to RMB5.0 million during the Period.

CASH FLOWS

During the Period, the Group generated net cash of approximately RMB24.9 million (six months ended 30 June 2020: approximately RMB5.9 million) from operating activities. The substantial increase in net cash generated from operating activities was resulted from the combined effects of the increase in cash inflow from the operating profit, which was offset by a decrease in working capital of trade and other payables and increase in payment of income tax expenses for the Period.

Net cash used in investing activities was approximately RMB40.1 million (six months ended 30 June 2020: approximately RMB0.23 million) for the Period. The increase in net cash used in investing activities was resulted from increase in the payment for acquisition of property, plant and equipment during the Period.

Net cash generated from financing activities was approximately RMB115.9 million (six months ended 30 June 2020: approximately RMB8.2 million) for the Period. The substantial increase in net cash generated from financing activities was mainly resulted from the proceeds received from the Global Offering.

CONTINGENT LIABILITIES

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

EXPOSURE TO FLUCTUATION IN EXCHANGE RATE

The majority of the Group's business and borrowings are denominated and accounted for in RMB. The Group, therefore, does not have any significant exposure to foreign exchange fluctuation.

The Board does not expect the fluctuation of RMB exchange rate and other foreign exchange fluctuation will have any material impact on the business operations or financial results of the Group. However, the Group will closely monitor the foreign exchange market and take appropriate and effective measures from time to time to reduce any negative impact from exchange-rate risk to the furthest extent including establishment of a hedging policy.

CHARGES ON GROUP'S ASSETS

During the Period, the legal charges over the Group's certain leasehold land and buildings with a total carrying value of approximately RMB 0.8 million as at 31 December 2020 were released as the bank loan amounting to RMB 5.0 million, which was secured on the aforesaid leasehold land and buildings, was repaid during the Period.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2021, the Group had 172 employees (31 December 2020: 172). The total staff costs including directors' remuneration for the Period were approximately RMB9.3 million (six months ended 30 June 2020: approximately RMB7.2 million). Remuneration is determined based on each employee's qualifications, position and seniority. In addition to a basic salary, year-end discretionary bonuses are offered with reference to our Group's performance as well as individual's performance to attract and retain appropriate and suitable personnel to serve the Group. Furthermore, the Group offers other staff benefits like provision of retirement benefits, various types of trainings and sponsorship of training courses. The Group also adopts an annual review system to assess the performance of staff member, which forms the basis of decisions with respect to salary rises and promotions.

SIGNIFICANT INVESTMENT, ACQUISITION AND DISPOSAL

There were no significant investments held, acquisitions or disposals of subsidiaries, associated companies and joint ventures by the Group during the Period.

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries, associated companies and joint ventures as at 30 June 2021.

CAPITAL EXPENDITURE

For the Period, the Group spent approximately RMB40.3 million (six months ended 30 June 2020: approximately RMB0.27 million) on capital expenditure, which was primarily related to the prepayment for the acquisition of property, plant and machinery in accordance with the planned use of net proceeds from the Global Offering as disclosed in the Prospectus.

INTERIM DIVIDEND

The Board does not recommend the payment of dividend for the Period (six months ended 30 June 2020: Nil).

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

As the Shares were listed on the Stock Exchange on the date of Listing, the Group was at its initial stage of implementing its business objectives and strategies in accordance with the proposed applications set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus during the Period. As of the date of this announcement, the Board does not anticipate any change to its plan on the use of proceeds as stated in the Prospectus. The net proceeds (after deduction of underwriting fees, commissions and expenses) from the Global Offering amounted to approximately HK\$114.1 million. The table below sets out the planned allocations of the net proceeds and actual usage up to 30 June 2021:

Business Strategies	Net proceeds from the Global Offering (HK\$' million)	Actual use of proceeds as at 30 June 2021 (HK\$' million)	Unutilised amount as at 30 June 2021 (HK\$' million)	Expected timeline for the utilisation of the remaining balance^(Note)
Enhancing and expanding the production capacity to further produce the major prescribed medicine, in particular the major capsule products with the intended effect of treating/alleviating cardio-cerebrovascular (心腦血管) condition	51.7	32.3	19.4	By the second quarter of 2022
Broadening the distribution network in Huanan (華南) and Huadong (華東) in the PRC	19.7	–	19.7	By the end of 2022
Raising the brand awareness through media marketing and promotion efforts	12.0	4.2	7.8	By the end of 2022
Further raising the R&D efforts, procuring quality management equipment and broadening the product portfolio	23.4	4.5	18.9	By the second quarter of 2022
Upgrading the IT system	4.0	–	4.0	By the end of 2022
Increasing general working capital	3.3	–	3.3	By the end of 2021
Total	114.1	41.0	73.1	

Note:

The unused proceeds are currently placed into authorised financial institution(s) and/or licensed entity(ies). The expected timeline for utilising the net proceeds from the Global Offering is based on the best estimation of future market conditions made by the Group and subject to changes in accordance with our actual business operation. If there is any change in the use of proceeds, the Company will publish a separate announcement accordingly.

OTHER INFORMATION

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company for the Period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of good corporate governance to the Company's healthy growth and has devoted considerable efforts in formulating and implementing corporate governance practices appropriate to the Company's needs. The Company has adopted the principles and code provisions of the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") as the basis of the Company's corporate governance practices.

The Company has complied with all applicable code provisions set out in the CG Code contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2021.

The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Having made specific enquiries to all the Directors of the Company, each of the Directors has confirmed that he/she has complied with the required standards set out in the Model Code from the Listing Date to 30 June 2021.

SHARE OPTION SCHEME

Pursuant to the written resolutions of all the Shareholders passed on 18 December 2020, the Company adopted a share option scheme (the “**Share Option Scheme**”). The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules, which became effective on the Listing Date. No share option has been granted since the Listing Date and therefore, there were no outstanding share options as at 30 June 2021 and no share option was exercised, expired or cancelled or lapsed under the Share Option Scheme for the period from the Listing Date to 30 June 2021 and up to the date of this announcement.

EVENT AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Company or the Group after 30 June 2021 and up to the date of this announcement.

PRINCIPAL RISKS AND UNCERTAINTIES

Our business, financial condition and results of operations could be materially and adversely affected by certain risks and uncertainties. For details, please see the section headed “Risk Factors” of the Prospectus.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely, Ms. Liu Ling, Mr. Leung Tsz Wing and Mr. Chan Kam Leung. The chairman of the Audit Committee is Mr. Leung Tsz Wing. The Audit Committee and the auditor of the Company have reviewed the unaudited interim results of the Group for the period and was of the opinion that the preparation of such interim results had been prepared in accordance with the relevant accounting standards and that adequate disclosures have been made in accordance with the requirements of the Listing Rules.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This announcement is published on the Stock Exchange's website (<https://www.hkexnews.hk>) and the Company's website (<http://www.cdysjdyy.com>). The 2021 interim report of the Company will be despatched to the shareholders of the Company and will be available on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
Modern Chinese Medicine Group Co., Ltd.
Xie Wei
Chairman and Executive Director

Hong Kong, 26 August 2021

As at the date of this announcement, the Board comprises four executive Directors, namely, Mr. Xie Wei, Ms. Zhang Hongli, Mr. Li Jinglian and Mr. Jiang Zhendong; and three independent non-executive Directors, namely, Ms. Liu Ling, Mr. Leung Tsz Wing and Mr. Chan Kam Leung.