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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 2022

FINANCIAL HIGHLIGHTS

- Revenue increased from approximately RMB171.8 million for the six months ended 30 June 2021 to approximately RMB196.1 million for the six months ended 30 June 2022, representing an increase of approximately 14.1%.
- Gross profit increased from approximately RMB78.6 million for the six months ended 30 June 2021 to approximately RMB86.4 million for the six months ended 30 June 2022, representing an increase of approximately 9.9%.
- Profit attributable to the owners of the Company increased from RMB44.1 million for the six months ended 30 June 2021 to approximately RMB49.9 million for the six months ended 30 June 2022, representing an increase of approximately 13.1%.
- Basic and diluted earnings per share increased from RMB7.43 cents for the six months ended 30 June 2021 to RMB8.32 cents for the six months ended 30 June 2022, representing an increase of approximately 12.0%.

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 2022 (the “**Period**”), together with the comparative figures for the corresponding period in 2021 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

	<i>Note</i>	Six months ended 30 June	
		2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Revenue	4	196,064	171,798
Cost of sales		<u>(109,711)</u>	<u>(93,223)</u>
Gross profit		86,353	78,575
Other income	5	299	220
Selling and distribution expenses		(11,208)	(9,452)
Administrative and other operating expenses		(7,896)	(9,084)
Finance costs	6	<u>(6)</u>	<u>(67)</u>
Profit before tax	6	67,542	60,192
Income tax expenses	7	<u>(17,626)</u>	<u>(16,072)</u>
Profit for the period		49,916	44,120
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences on consolidation		<u>161</u>	<u>18</u>
Total comprehensive income for the period		<u>50,077</u>	<u>44,138</u>
Earnings per share attributable to owners of the Company		<i>RMB cent</i>	<i>RMB cent</i>
Basic and diluted	8	<u>8.32</u>	<u>7.43</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2022	At 31 December 2021
	<i>Note</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Non-current assets			
Property, plant and equipment		70,208	71,843
Intangible assets		340	389
Right-of-use assets		2,029	2,261
Deposits paid for acquisition of property, plant and equipment	10	12,935	9,435
Deferred tax assets		5,170	5,170
		90,682	89,098
Current assets			
Inventories	11	31,306	58,692
Trade and other receivables	12	85,391	72,062
Bank balances and cash		221,806	176,091
		338,503	306,845
Current liabilities			
Trade and other payables	13	40,287	50,896
Lease liabilities	14	97	341
Income tax payables		9,614	7,276
		49,998	58,513
Net current assets		288,505	248,332
Total assets less current liabilities		379,187	337,430
Non-current liabilities			
Lease liabilities	14	71	69
NET ASSETS		379,116	337,361
Capital and reserves			
Share capital	15	5,010	5,010
Reserves		374,106	332,351
TOTAL EQUITY		379,116	337,361

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 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	<u>5,010</u>	<u>116,154</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>121,164</u>
At 30 June 2021 (Unaudited)	<u>5,010</u>	<u>116,996</u>	<u>29,540</u>	<u>1,439</u>	<u>15,113</u>	<u>132,036</u>	<u>300,134</u>

* Represent amount less than RMB1,000.

	<u>Reserves</u>						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 2022 (Audited)	<u>5,010</u>	<u>116,996</u>	<u>29,540</u>	<u>1,010</u>	<u>15,113</u>	<u>169,692</u>	<u>337,361</u>
Profit for the period	-	-	-	-	-	49,916	49,916
Other comprehensive income							
<i>Item that may be reclassified subsequently to profit or loss</i>							
Exchange differences on consolidation	<u>-</u>	<u>-</u>	<u>-</u>	<u>161</u>	<u>-</u>	<u>-</u>	<u>161</u>
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>161</u>	<u>-</u>	<u>49,916</u>	<u>50,077</u>
Transactions with owners:							
2021 Dividend approved and paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,322)</u>	<u>(8,322)</u>
Total transactions with owners	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,322)</u>	<u>(8,322)</u>
At 30 June 2022 (Unaudited)	<u><u>5,010</u></u>	<u><u>116,996</u></u>	<u><u>29,540</u></u>	<u><u>1,171</u></u>	<u><u>15,113</u></u>	<u><u>211,286</u></u>	<u><u>379,116</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	58,461	24,928
INVESTING ACTIVITIES		
Interest received	291	185
Deposits paid for acquisition of property, plant and equipment	(3,500)	–
Payment for purchase of property, plant and equipment	(851)	(39,876)
Payment for acquisition of intangible assets	–	(437)
Net cash used in investing activities	(4,060)	(40,128)
FINANCING ACTIVITIES		
Proceeds from the Global Offering	–	147,802
Repayment of interest-bearing borrowings	–	(5,000)
Payment of transaction costs attributable to issue of shares	–	(26,638)
Payment of lease liabilities	(242)	(166)
Interest paid	(6)	(67)
Dividend paid	(8,322)	–
Net cash (used in)/generated from financing activities	(8,570)	115,931
Net increase in cash and cash equivalents	45,831	100,731
Cash and cash equivalents at the beginning of the reporting period	176,091	73,191
Effect on exchange rate changes	(116)	10
Cash and cash equivalents at the end of the reporting period, represented by bank balances and cash	221,806	173,932

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

The Company 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 Date**”). 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**”). As further detailed in the Company’s announcement dated 24 December 2021, Mr. Xie Wei (“**Mr. Xie**”), the ultimate controlling party (the “**Ultimate Controlling Party**”), passed away on 24 December 2021.

As at the date of approval of these unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2022 (the “**Interim Financial Statements**”), the spouse of Mr. Xie, Ms. Sun Xinlei (“**Ms. Sun**”) has engaged her legal counsel in the BVI to process her application for the inheritance of Mr. Xie’s estate.

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 Rules**”).

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 2021, 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**”) the collective term of which 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 2021 (the “**2021 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 2021 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 2022.

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 2022 for the preparation of the Interim Financial Statements:

Amendments to HKAS 16	Proceeds before Intended Use
Amendments to HKAS 37	Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Annual Improvements to HKFRSs	2018-2020 Cycle

The adoption of the new/revised HKFRSs in the current period has no material impact on the Group’s financial position and performance for the current and prior periods and/or on the disclosures set out in the Interim Financial Statements.

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 of the Company 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	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A	<u>N/A</u> ^{Note}	<u>17,941</u>

Note: The individual customer contributed less than 10% of the total revenue of the Group for the reporting period.

4. REVENUE

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers within HKFRS 15		
<i>At a point in time</i>		
– Production of PCM	<u>196,064</u>	<u>171,798</u>

5. OTHER INCOME

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income	291	185
Exchange gain, net	–	35
Sundry income	<u>8</u>	<u>–</u>
	<u>299</u>	<u>220</u>

6. PROFIT BEFORE TAX

This is stated after charging:

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Finance costs		
Interest on interest-bearing borrowings	–	57
Interest on lease liabilities	<u>6</u>	<u>10</u>
	<u>6</u>	<u>67</u>
Staff costs (including directors' emoluments)		
Salaries, allowances, discretionary bonus, and other benefits in kind	7,792	8,016
Contributions to defined contribution plans	<u>1,822</u>	<u>1,234</u>
	<u>9,614</u>	<u>9,250</u>
Other items		
Depreciation of right-of-use assets (charged to “administrative and other operating expenses”)	232	283
Depreciation of property, plant and equipment (charged to “cost of sales” and “administrative and other operating expenses”, as appropriate)	2,486	835
Amortisation of intangible assets (charged to “administrative and other operating expenses”)	49	–
Research and development (“R&D”) expenses	<u>1,500</u>	<u>2,600</u>

7. INCOME TAX EXPENSES

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Current tax		
PRC enterprise income tax (“PRC EIT”)	17,626	16,722
Deferred tax		
Changes in temporary differences	<u>–</u>	<u>(650)</u>
Total income tax expenses for the period	<u>17,626</u>	<u>16,072</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 2022 and 2021.

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 2022 and 2021.

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	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Profit for the period attributable to owners of the Company, used in the calculation of basic and diluted earnings per share	<u>49,916</u>	<u>44,120</u>
	'000	'000
<i>Number of shares:</i>		
Weighted average number of ordinary shares for the calculation of basic and diluted earnings per share	<u>600,000</u>	<u>593,836</u>

The calculation of basic earnings per share is based on the profit attributable to owners of the Company and the weighted average number of ordinary shares in issue during the period. For the six months ended 30 June 2021, 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 (as defined in 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 2022 and 2021.

9. DIVIDENDS

The Directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

10. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

	At 30 June	At 31 December
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Audited)
Deposit paid for		
Purchase of plant and machinery (<i>Note</i>)	9,435	9,435
Other construction works	<u>3,500</u>	<u>–</u>
	<u>12,935</u>	<u>9,435</u>

Note: At 30 June 2022 and 31 December 2021, full proceeds of approximately RMB9,435,000 was paid by the Group to a supplier for purchasing plant and machinery (the "Plant and Machinery"). At 30 June 2022, the Plant and Machinery are still not yet being delivered. The Group's had no capital commitment in relation to the Plant and Machinery at 30 June 2022.

11. INVENTORIES

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Raw materials	10,657	25,006
Work-in-progress	2,710	15,228
Finished goods	<u>17,939</u>	<u>18,458</u>
	<u>31,306</u>	<u>58,692</u>

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Trade receivables		
From third parties	84,042	71,849
Less: Loss allowances	<u>(420)</u>	<u>(359)</u>
	<u>83,622</u>	<u>71,490</u>
Other receivables		
Prepayments	861	316
Other deposits and receivables	<u>908</u>	<u>256</u>
	<u>1,769</u>	<u>572</u>
	<u>85,391</u>	<u>72,062</u>

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 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Within 30 days	41,022	38,402
31 to 60 days	<u>42,600</u>	<u>33,088</u>
	<u>83,622</u>	<u>71,490</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 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Trade payables		
To third parties	<u>20,381</u>	<u>28,822</u>
Other payables		
Monetary marketing incentives payables (<i>Note</i>)	7,635	7,230
Value-added tax and other tax payables	3,219	2,511
Salary payables	1,870	1,503
Accruals and other payables	<u>7,182</u>	<u>10,830</u>
	<u>19,906</u>	<u>22,074</u>
	<u>40,287</u>	<u>50,896</u>

Note: The credit term for the monetary marketing incentives payables are not more than 90 days from the date of issuance of invoices.

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

	At 30 June 2022 RMB'000 (Unaudited)	At 31 December 2021 RMB'000 (Audited)
Within 30 days	18,621	27,749
31 to 60 days	<u>1,760</u>	<u>1,073</u>
	<u>20,381</u>	<u>28,822</u>

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

14. LEASE LIABILITIES

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Lease liabilities		
Current portion	97	341
Non-current portion	<u>71</u>	<u>69</u>
	<u>168</u>	<u>410</u>

Commitments and present value of lease liabilities:

	At 30 June 2022	
	Lease payment <i>RMB'000</i> (Unaudited)	Present value of lease payments <i>RMB'000</i> (Unaudited)
Amount payable:		
Within one year	101	97
In the second to fifth years inclusive	<u>72</u>	<u>71</u>
	173	168
Less: future finance charges	<u>(5)</u>	<u>-</u>
Total lease liabilities	<u>168</u>	<u>168</u>

	At 31 December 2021	
	Lease payment <i>RMB'000</i> (Audited)	Present value of lease payments <i>RMB'000</i> (Audited)
Amount payable:		
Within one year	349	341
In the second to fifth years inclusive	<u>72</u>	<u>69</u>
	421	410
Less: future finance charges	<u>(11)</u>	<u>-</u>
Total lease liabilities	<u>410</u>	<u>410</u>

The total cash outflows for leases for the six months ended 30 June 2022 was approximately RMB0.2 million (six months ended 30 June 2021: approximately RMB0.2 million).

15. SHARE CAPITAL

	<i>Notes</i>	Number of shares '000	Amount HK\$'000	Equivalent to RMB Approximately RMB'000
Ordinary share of HK\$0.01 each:				
Authorised:				
At 1 January 2021, 31 December 2021, 1 January 2022 and 30 June 2022		<u>10,000,000</u>	<u>100,000</u>	<u>84,349</u>
Issued and fully paid:				
At 1 January 2021 (Audited)		_*	_*	_*
Issue of shares pursuant to the Capitalisation Issue	<i>15(a)</i>	450,000	4,500	3,758
Issue of shares pursuant to the Global Offering	<i>15(b)</i>	<u>150,000</u>	<u>1,500</u>	<u>1,252</u>
At 31 December 2021, 1 January 2022 and 30 June 2022 (Unaudited)		<u>600,000</u>	<u>6,000</u>	<u>5,010</u>

* Represent amount less than RMB1,000.

Notes:

- (a) 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.
- (b) 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 2022 and 2021, 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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Salaries, allowances, discretionary bonus, and other benefits in kind	880	872
Contributions to defined contribution plans	107	141
	987	1,013

17. COMMITMENTS

Capital expenditure commitments

	At 30 June	At 31 December
	2022	2021
	<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	8,024	–

18. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved by the Board on 25 August 2022.

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 Group currently has about 60 types of PCM products, the major products of which include Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸), Cardiotonic Enhancement Capsule (山玫膠囊), Kidney Invigoration Pill (金匱腎氣丸), Heart Wellness Capsule (心安膠囊), Menstrual Discomfort Relief Pill (加味逍遙丸), Liver Detox Tablet (護肝片), Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸), Liver-dispersing and Stomach Regulating Pill (舒肝和胃丸) and Fever-removing and Detoxification Pill (清瘟解毒丸).

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 cardio-cerebrovascular PCM capsules (心腦血管中成藥膠囊) in Northeast, the PRC. 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. 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 illnesses.

The Group has currently established a distribution network of 83 distributors covering about 40 cities in the PRC, which are in turn served and administered by over 37 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, the distribution network would not only help to develop the business operations geographically from Northeast and Huanan (華南) to other areas in the PRC, but also allow the Group to penetrate in reasonably extensive width and breadth both in Northeast and Huanan (華南), where the Group is strategically targeting at in view of the Group's established footprint and the large population there. For the Period, the revenue contribution from Northeast and Huanan (華南) amounted to approximately RMB109.2 million and RMB32.1 million, respectively (six months ended 30 June 2021: approximately RMB92.3 million and RMB30.0 million, respectively).

OUTLOOK AND PROSPECTS

During the first half of 2022, the PRC Government continued to implement a dynamic zero-COVID policy to fight against the COVID-19 pandemic, which largely minimised the widespread of coronavirus across the country. To cope with the COVID-19 situation in Shanghai earlier this year, the PRC Government has, on a number of occasions, implemented various stringent anti-epidemic measures (including traffic and travel control and other social distancing measures), which led to a stagnation of economic activities across the region and negatively impacted the gross domestic product of the country. In any event, while the COVID-19 pandemic may have posed difficulties to the production and operation of some pharmaceutical companies, the overall industry is still experiencing positive growth with favourable support from various government policies for the promotion of the PCM industry. The COVID-19 pandemic has also brought the outstanding contribution of traditional Chinese medicine to the limelight.

The Group has confidence in the future prospects of the economy of the PRC as well as the PCM industry. In line with the development trend of the PRC PCM market, the Group shall adhere to its development strategies and exploit the favourable government policies (“Development Plan for Promoting the High-quality Integration of Traditional Chinese Medicine into the Belt and Road Initiative (2021-2025)” 《推進中醫藥高質量融入共建「一帶一路」發展規劃(2021-2025年)》 issued on 15 January 2022 by the National Administration of Traditional Chinese Medicine) in order to further promote and revitalise its product portfolio.

The Board believes that the various sales channels of the Group would be able to expand the distribution network and hereby augment the sales revenue. In addition, with the growing public awareness of traditional Chinese medicine, the Group will seize the opportunities presented by the growth of the industry to achieve outstanding results and create better value for our shareholders in the near future.

FINANCIAL REVIEW

The Group posted a consolidated revenue of approximately RMB196.1 million for the Period, representing an increase of approximately RMB24.3 million or 14.1% as compared to the six months ended 30 June 2021. The increase in revenue was primarily driven by the surge in revenue generated from the sales of our major products, namely Vigour and Vitality Supplement Pill (補腎填精丸), Fever-removing and Detoxification Pill (清瘟解毒丸) and Additional Ingredient Huoxiang Zheng Qi Pill (加味藿香正氣丸) due to the improved marketing tactics adopted by our existing distributors. Fever-removing and Detoxification Pill (清瘟解毒丸) and Additional Ingredient Huoxiang Zheng Qi Pill (加味藿香正氣丸) were believed to have intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness.

The increase in revenue generated from the sales of Vigour and Vitality Supplement Pill (補腎填精丸), Fever-removing and Detoxification Pill (清瘟解毒丸) and Additional Ingredient Huoxiang Zheng Qi Pill (加味藿香正氣丸) was somehow offset by the decrease in revenue generated from the sales of Circulation Enhancement Pill (氣血雙補丸) and Kidney Invigoration Pill (金匱腎氣丸).

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 of the Period and the six months ended 30 June 2021. These two products contributed approximately 45.5% and 46.4% of the Group’s total revenue for the Period and the six months ended 30 June 2021, respectively.

The Northeast remained 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 2021. The increase in total revenue of the Group by approximately 14.1% during the Period as compared to that of the six months ended 30 June 2021 was mainly due to the sales growth in the Northeast and Huadong (華東) by approximately RMB16.9 million and approximately RMB2.5 million respectively.

The Group manages the overall gross profit margin to ensure the profitability of the Group while allowing flexible price adjustments for individual products. The overall gross profit margin for the Period decreased slightly to approximately 44.0% as compared to approximately 45.7% for the six months ended 30 June 2021. It was mainly due to the relatively lower gross profit margin of Vigour and Vitality Supplement Pill (補腎填精丸), the sales revenue of which increased by approximately RMB12.7 million during the Period. On the other hand, the production costs for other products also augmented due to the increased purchase prices of certain major ingredients during the Period, which exerted a negative impact on the overall gross profit margin.

OPERATING COSTS AND EXPENSES

Selling and distribution expenses of the Group increased by approximately 18.6% from approximately RMB9.5 million for the six months ended 30 June 2021 to approximately RMB11.2 million for the Period. It was mainly due to the increase in advertisement expenses by approximately RMB1.1 million spent on various marketing campaigns 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 R&D costs. There was a reduction of approximately 13.1% in respect of the administrative and other operating expenses for the Period in comparison with those of the six months ended 30 June 2021. This was mainly due to the decrease of approximately RMB1.1 million in research and development expenses for the Period.

Finance costs decreased by approximately RMB61,000 to approximately RMB6,000 for the Period as compared to that of the six months ended 30 June 2021 which was primarily due to the repayment of a loan in late March 2021.

OPERATING RESULTS

Profit for the Period increased by approximately 13.1% from approximately RMB44.1 million for the six months ended 30 June 2021 to approximately RMB49.9 million for the Period. This was primarily due to the increase in sales of Vigour and Vitality Supplement Pill (補腎填精丸), Additional Ingredient Huoxiang Zheng Qi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸), which were the major products of the Group during the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2022, the Group held total assets of approximately RMB429.2 million (31 December 2021: approximately RMB395.9 million), including property, plant and equipment of approximately RMB70.2 million (31 December 2021: approximately RMB71.8 million), trade and other receivables of approximately RMB85.4 million (31 December 2021: approximately RMB72.1 million) and bank balances and cash of approximately RMB221.8 million (31 December 2021: approximately RMB176.1 million).

As at 30 June 2022, the Group had total liabilities of approximately RMB50.1 million (31 December 2021: approximately RMB58.6 million) which comprises mainly of trade and other payables amounting to approximately RMB40.3 million (31 December 2021: approximately RMB50.9 million).

As at 30 June 2022, the gearing ratio, expressed as a percentage of total loans (including interest-bearing borrowings and lease liabilities) over total equity, was about 0.04% (31 December 2021: approximately 0.12%). This reduction was mainly resulted from the decrease of lease liabilities during the Period.

CASHFLOW

During the Period, the Group generated net cash of approximately RMB58.5 million (six months ended 30 June 2021: approximately RMB24.9 million) from operating activities. The substantial increase in net cash generated from operating activities was mainly resulted from the increase in cash inflow from the operating profit and working capital.

Net cash used in investing activities was approximately RMB4.1 million for the Period (six months ended 30 June 2021: approximately RMB40.1 million). The decrease in net cash used in investing activities was resulted from the reduction in payment for the acquisition of property, plant and equipment during the Period.

Net cash used in financing activities was approximately RMB8.6 million for the Period; the net cash of approximately RMB115.9 million was generated from financing activities for the six months ended 30 June 2021. The change from net cash inflow to net cash outflow in respect of financing activities was mainly resulted from the proceeds received from the Global Offering during the six months ended 30 June 2021 and the dividend paid during the Period.

CONTINGENT LIABILITIES

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

CHARGE ON GROUP ASSETS

As at 30 June 2022, the Group did not have any charge on its assets (31 December 2021: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2022, the Group had 186 employees (31 December 2021: 196). The total staff costs including directors' remuneration for the Period were approximately RMB9.6 million (six months ended 30 June 2021: approximately RMB9.3 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 members, 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 2022.

CAPITAL EXPENDITURE

For the Period, the Group spent approximately RMB0.9 million (31 December 2021: approximately RMB62.4 million) on capital expenditure, which was primarily related to 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 interim dividend for the Period (six months ended 30 June 2021: Nil).

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The Group implemented 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 2022:

	Net proceeds from the Global Offering (HK\$' million)	Actual use of proceeds as at 30 June 2022 (HK\$' million)	Unutilised amount as at 30 June 2022 (HK\$' million)	Expected timeline for the utilization of the remaining balance ⁽¹⁾
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 ⁽²⁾	51.7	51.7	–	–
Broadening the distribution network in Huanan (華南) and Huadong (華東) in the PRC	19.7	1.6	18.1	By the second quarter of 2023
Raising the brand awareness through media marketing and promotion efforts	12.0	12.0	–	–
Further raising the research and development efforts, procuring quality management equipment and broadening the product portfolio	23.4	9.4	14.0	By the third quarter of 2023
Upgrading the IT system	4.0	–	4.0	By the end of 2022
Increasing general working capital	<u>3.3</u>	<u>3.3</u>	<u>–</u>	–
Total	<u>114.1</u>	<u>78.0</u>	<u>36.1</u>	

Note:

- (1) 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.
- (2) The new production line, which was originally scheduled to commence trial production in the second quarter of 2022, has been delayed due to the impact of COVID-19 pandemic. The trial production is expected to be commenced by the end of 2022.

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 Company's listed securities 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 to 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 Listing Rules as the basis of the Company's corporate governance practices.

In the opinion of the Directors, during the six months ended 30 June 2022, the Company complied with all applicable code provisions as set out in the CG Code save for the deviations from code provision C.2.1.

According to provision C.2.1 of the code provisions, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The deviation from C.2.1 of the CG Code is due to the passing away of Mr. Xie, the then chairman and executive Director of the Board, on 24 December 2021. The position of chairman has been vacant since the passing away of Mr. Xie and up to the date of this announcement. The duties and responsibilities of chairman of the Board have been temporarily shared among other members of the Board and senior management, including Ms. Zhang Hongli, our executive Director and chief executive officer. A new chairman will be appointed by the Board in due course and further announcement will be made as soon as practicable.

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 during the Period.

SHARE OPTION SCHEME

Pursuant to the written resolutions of all the shareholders of the Company 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 15 January 2021. No share option has been granted since the Listing Date and therefore, there were no outstanding share options as at 30 June 2022 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 2022 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 2022 and up to the date of this announcement.

PRINCIPAL RISKS AND UNCERTAINTIES

Pursuant to the Group’s risk assessment, two major risks were identified in 2021, namely (i) policy risk; and (ii) market competition risk.

Policy risk: the PCM industry is significantly affected by the national policies, and with new policies issued frequently, the market pattern has been continuously adjusted and changed in a short time. China has been continuing to deepen its reforms of the PCM industry. For example, measures such as the enforcement and adjustment of medical insurance catalogue, the continuous implementation of centralized bulk-buying and new guiding principles for R&D may have deep and lasting impact on the future development of the PCM and may also have different levels of impact on the Group’s production and sales. In early December 2021, the National Healthcare Security Administration and the Ministry of Human Resources and Social Security issued the Catalogue of Drugs for National Basic Medical Insurance, Work-related Injury Insurance and Maternity Insurance (2021) (the “**National Medical Insurance Catalogue (2021)**”). Through this adjustment to the catalogue, the total number of drugs in the National Medical Insurance Catalogue (2021) is 2,860, including 1,486 western drugs, 1,374 Chinese patent drugs, and 892 traditional Chinese medicine tablets.

Market competition risk: with the deepening of PCM industry reform policy, it is possible the overall growth rate of the PCM industry might slow down, and result into a decrease number of PCM products distributors, it may also further intensify the market competition among market players. Further, cross-industry competitors might use their resources to participate in industry competition, increasing the competition in the PCM industry field and changing the PCM industry rules. The outbreak of COVID-19 epidemic has brought uncertainty to the market competition pattern of PCM industry.

AUDIT COMMITTEE

The audit committee of the Company 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 unaudited interim results of the Group for the Period have been reviewed by the Audit Committee.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Stock Exchange's website (<https://www.hkexnews.hk>) and the Company's website (<http://www.cdysjdy.com>). The 2022 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.
Zhang Hongli
Executive Director

Hong Kong, 25 August 2022

As at the date of this announcement, the Board comprises three executive Directors, namely, 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.