

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2023

FINANCIAL HIGHLIGHTS

- Revenue decreased from approximately RMB196.1 million for the six months ended 30 June 2022 to approximately RMB180.1 million for the Period, representing a decrease of approximately 8.1%.
- Gross profit decreased from approximately RMB86.4 million for the six months ended 30 June 2022 to approximately RMB59.2 million for the Period, representing a decrease of approximately 31.4%.
- Profit attributable to the owners of the Company decreased from RMB49.9 million for the six months ended 30 June 2022 to approximately RMB27.6 million for the Period, representing a decrease of approximately 44.7%.
- Basic and diluted earnings per share decreased from RMB8.32 cents for the six months ended 30 June 2022 to RMB4.60 cents for the Period, representing a decrease of approximately 44.7%.

The Board (the “**Board**”) of Directors (the “**Directors**”) of Modern Chinese Medicine Group Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) presents the unaudited condensed consolidated interim results of the Company and its subsidiaries for the six months ended 30 June 2023 (the “**Period**”), together with the comparative figures for the corresponding period in 2022 as follows:

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

	<i>Note</i>	Six months ended 30 June	
		2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Revenue	4	180,091	196,064
Cost of sales		<u>(120,864)</u>	<u>(109,711)</u>
Gross profit		59,227	86,353
Other income, gains and losses, net	5	(1,832)	299
Selling and distribution expenses		(12,422)	(11,208)
Administrative and other operating expenses		(5,713)	(7,896)
Finance costs	6	<u>(4)</u>	<u>(6)</u>
Profit before tax	6	39,256	67,542
Income tax expenses	7	<u>(11,676)</u>	<u>(17,626)</u>
Profit for the period		27,580	49,916
Other comprehensive income			
<i>Item that will not be reclassified to profit or loss</i>			
Exchange difference on translation from functional currency to presentation currency		2,592	–
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences on consolidation		<u>(32)</u>	<u>161</u>
Other comprehensive income for the period, net of tax		<u>2,560</u>	<u>161</u>
Total comprehensive income for the period		<u>30,140</u>	<u>50,077</u>
Earnings per share attributable to owners of the Company		<i>RMB cent</i>	<i>RMB cent</i>
Basic and diluted	8	<u>4.60</u>	<u>8.32</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 June 2023	At 31 December 2022
	<i>Note</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Non-current assets			
Property, plant and equipment		88,892	78,452
Intangible assets		243	292
Right-of-use assets		1,903	2,154
Deposits paid for acquisition of property, plant and equipment	10	–	9,435
Deferred tax assets		<u>7,408</u>	<u>8,711</u>
		<u>98,446</u>	<u>99,044</u>
Current assets			
Inventories	11	39,115	41,509
Trade and other receivables	12	80,396	78,725
Bank balances and cash		<u>281,543</u>	<u>282,256</u>
		<u>401,054</u>	<u>402,490</u>
Current liabilities			
Trade and other payables	13	36,434	64,617
Lease liabilities	14	134	393
Income tax payables		<u>3,759</u>	<u>8,344</u>
		<u>40,327</u>	<u>73,354</u>
Net current assets		<u>360,727</u>	<u>329,136</u>
Total assets less current liabilities		<u>459,173</u>	<u>428,180</u>
Non-current liabilities			
Deferred tax liabilities		<u>6,099</u>	<u>5,246</u>
NET ASSETS		<u><u>453,074</u></u>	<u><u>422,934</u></u>
Capital and reserves			
Share capital	15	5,010	5,010
Reserves		<u>448,064</u>	<u>417,924</u>
TOTAL EQUITY		<u><u>453,074</u></u>	<u><u>422,934</u></u>

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 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>

	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 2023 (Audited)	<u>5,010</u>	<u>108,674</u>	<u>29,540</u>	<u>7,076</u>	<u>15,113</u>	<u>257,521</u>	<u>422,934</u>
Profit for the period	-	-	-	-	-	27,580	27,580
Other comprehensive income							
<i>Item that will not be reclassified to profit or loss</i>							
Exchange difference on translation from functional currency to presentation currency	-	-	-	2,592	-	-	2,592
<i>Item that may be reclassified subsequently to profit or loss</i>							
Exchange differences on consolidation	<u>-</u>	<u>-</u>	<u>-</u>	<u>(32)</u>	<u>-</u>	<u>-</u>	<u>(32)</u>
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,560</u>	<u>-</u>	<u>27,580</u>	<u>30,140</u>
At 30 June 2023 (Unaudited)	<u><u>5,010</u></u>	<u><u>108,674</u></u>	<u><u>29,540</u></u>	<u><u>9,636</u></u>	<u><u>15,113</u></u>	<u><u>285,101</u></u>	<u><u>453,074</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	3,681	58,461
INVESTING ACTIVITIES		
Payment for purchase of property, plant and equipment	(4,915)	(851)
Interest received	715	291
Deposits paid for acquisition of property, plant and equipment	—	(3,500)
Net cash used in investing activities	(4,200)	(4,060)
FINANCING ACTIVITIES		
Payment of lease liabilities	(259)	(242)
Interest paid	(4)	(6)
Dividend paid	—	(8,322)
Net cash used in financing activities	(263)	(8,570)
Net (decrease) increase in cash and cash equivalents	(782)	45,831
Cash and cash equivalents at the beginning of the reporting period	282,256	176,091
Effect on exchange rate changes	69	(116)
Cash and cash equivalents at the end of the reporting period, represented by bank balances and cash	281,543	221,806

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

Modern Chinese Medicine Group Co., Ltd. was incorporated in the Cayman Islands as an exempted company with limited liability on 12 August 2019. The shares of the Company 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 principal place of business in Hong Kong has been changed from 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong to Room 2404, World-Wide House, 19 Des Voeux Road Central, Hong Kong. The Group’s headquarter 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**”). Referring to 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 further detailed in the Company’s announcement dated 18 July 2023, Ms. Sun Xinlei (“**Ms. Sun**”), the widow of Mr. Xie, completed the inheritance of all the issued shares of Modern Biotechnology and has been the Ultimate Controlling Party with effect from 4 July 2023.

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 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 2022, 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 collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“**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 2022 (the “**2022 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 2022 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 2023.

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 2023 for the preparation of the Interim Financial Statements:

Amendments to HKAS 1 HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Disclosure of Accounting Policies Insurance Contracts
Amendments to HKAS 8 Amendments to HKAS 12	Definition of Accounting Estimates Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

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 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.

The Group’s revenue did not have any single external customer contributing 10% or more of the total revenue of the Group during the six months ended 30 June 2023 and 2022.

4. REVENUE

	Six months ended 30 June	
	2023	2022
	<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>180,091</u>	<u>196,064</u>

5. OTHER INCOME, GAINS AND LOSSES, NET

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest income	715	291
Exchange loss, net	(2,547)	–
Sundry income	<u>–</u>	<u>8</u>
	<u>(1,832)</u>	<u>299</u>

6. PROFIT BEFORE TAX

This is stated after charging:

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Finance costs		
Interest on lease liabilities	<u>4</u>	<u>6</u>
Staff costs (including directors' emoluments)		
Salaries, allowances, discretionary bonus, and other benefits in kind	7,578	7,792
Contributions to defined contribution plans	<u>1,096</u>	<u>1,822</u>
	<u>8,674</u>	<u>9,614</u>
Other items		
Depreciation of right-of-use assets (charged to “administrative and other operating expenses”)	251	232
Depreciation of property, plant and equipment (charged to “cost of sales” and “administrative and other operating expenses”, as appropriate)	2,824	2,486
Amortisation of intangible assets (charged to “administrative and other operating expenses”)	49	49
Research and development expenses	<u>–</u>	<u>1,500</u>

7. INCOME TAX EXPENSES

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC enterprise income tax (“PRC EIT”)	9,520	17,626
Deferred tax		
Origination and changes in temporary differences	<u>2,156</u>	<u>–</u>
Total income tax expenses for the period	<u>11,676</u>	<u>17,626</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 2023 and 2022.

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 2023 and 2022.

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	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period attributable to owners of the Company, used in basic and diluted earnings per share calculation	<u>27,580</u>	<u>49,916</u>
	'000	'000
<i>Number of shares:</i>		
Weighted average number of ordinary shares for basic and diluted earnings per share calculation	<u>600,000</u>	<u>600,000</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.

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares outstanding during the six months ended 30 June 2023 and 2022.

9. DIVIDEND

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

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

	At 30 June 2023 RMB'000 (Unaudited)	At 31 December 2022 RMB'000 (Audited)
Deposit paid for purchase of plant and machinery (<i>Note</i>)	<u>–</u>	<u>9,435</u>

Note:

At 31 December 2022, full proceeds of approximately RMB9,435,000 have been paid by the Group to a supplier for purchasing plant and machinery (the “**Plant and Machinery**”). During the Period, the Plant and Machinery has been delivered to the Group and ready for commercial operation, and therefore the deposit paid has been reclassified to property, plant and equipment.

11. INVENTORIES

	At 30 June 2023 RMB'000 (Unaudited)	At 31 December 2022 RMB'000 (Audited)
Raw materials	12,046	22,126
Work-in-progress	6,498	6,159
Finished goods	<u>20,571</u>	<u>13,224</u>
	<u>39,115</u>	<u>41,509</u>

12. TRADE AND OTHER RECEIVABLES

	At 30 June 2023 RMB'000 (Unaudited)	At 31 December 2022 RMB'000 (Audited)
Trade receivables		
From third parties	79,367	78,479
Less: Loss allowances	<u>(392)</u>	<u>(392)</u>
	<u>78,975</u>	<u>78,087</u>
Other receivables		
Prepayments	1,138	354
Other deposits and receivables	<u>283</u>	<u>284</u>
	<u>1,421</u>	<u>638</u>
	<u>80,396</u>	<u>78,725</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 2023 RMB'000 (Unaudited)	At 31 December 2022 RMB'000 (Audited)
Within 30 days	31,906	42,171
31 to 60 days	32,454	35,916
61 to 90 days	<u>14,615</u>	<u>–</u>
	<u>78,975</u>	<u>78,087</u>

The Group normally grants credit terms up to 90 days (at 31 December 2022: 60 days) from the date of issuance of invoices.

13. TRADE AND OTHER PAYABLES

	At 30 June 2023 RMB'000 (Unaudited)	At 31 December 2022 RMB'000 (Audited)
Trade payables		
To third parties	<u>16,317</u>	<u>39,261</u>
Other payables		
Monetary marketing incentives payables (<i>Note i</i>)	6,834	8,779
Value-added tax and other tax payables	1,894	3,168
Salary payables	2,173	2,165
Accruals and other payables	<u>9,216</u>	<u>11,244</u>
	<u>20,117</u>	<u>25,356</u>
	<u>36,434</u>	<u>64,617</u>

Note:

- (i) The credit term for the monetary marketing incentive 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 2023 RMB'000 (Unaudited)	At 31 December 2022 RMB'000 (Audited)
Within 30 days	<u>16,317</u>	<u>39,261</u>

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

14. LEASE LIABILITIES

	At 30 June 2023 RMB'000 (Unaudited)	At 31 December 2022 RMB'000 (Audited)
Lease liabilities		
Current portion	<u>134</u>	<u>393</u>
Commitments and present value of lease liabilities:		
	At 30 June 2023	
	Lease payment RMB'000 (Unaudited)	Present value of lease payments RMB'000 (Unaudited)
Amount payable:		
Within one year	<u>135</u>	<u>134</u>
	135	134
Less: future finance charges	<u>(1)</u>	<u>-</u>
Total lease liabilities	<u>134</u>	<u>134</u>
	At 31 December 2022	
	Lease payment RMB'000 (Audited)	Present value of lease payments RMB'000 (Audited)
Amount payable:		
Within one year	<u>398</u>	<u>393</u>
	398	393
Less: future finance charges	<u>(5)</u>	<u>-</u>
Total lease liabilities	<u>393</u>	<u>393</u>

The total cash outflows for leases for the Period was approximately RMB0.3 million (six months ended 30 June 2022: approximately RMB0.2 million).

15. SHARE CAPITAL

	Number of shares '000	Amount HK'000	Equivalent to RMB Approximately RMB'000
Ordinary share of HK\$0.01 each			
Authorised:			
At 1 January 2022, 31 December 2022, 1 January 2023 and 30 June 2023	<u>10,000,000</u>	<u>100,000</u>	<u>84,349</u>
Issued and fully paid:			
At 1 January 2022, 31 December 2022, 1 January 2023 and 30 June 2023	<u>600,000</u>	<u>6,000</u>	<u>5,010</u>

16. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in the Interim Financial Statements, during the six months ended 30 June 2023 and 2022, 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	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Salaries, allowances, discretionary bonus, and other benefits in kind	1,054	880
Contributions to defined contribution plans	<u>81</u>	<u>107</u>
	<u>1,135</u>	<u>987</u>

17. EVENT AFTER THE REPORTING PERIOD

In February 2020, the Group, through its indirect wholly owned subsidiary, Shijiazhuang Medical Research Advisory Company Limited entered into a series of contractual arrangements (the “**Existing Contractual Arrangements**”) with Chengde Yushi Jindan Pharmaceutical Co. Ltd. (“**Chengde Yushi**”) and Mr. Xie, the then registered shareholder of Chengde Yushi. Following Ms. Sun became the registered shareholder of Chengde Yushi in December 2021 and also completed the inheritance of Mr. Xie’s estate, in particular all shares Mr. Xie held in Modern Biotechnology, in early July 2023, the Group executed the new contractual arrangements (the “**New Contractual Arrangements**”) substantially on the same terms as those currently in place under the Existing Contractual Arrangements, save that (a) the identity of the sole registered shareholder of Chengde Yushi was changed from Mr. Xie to Ms. Sun and (b) Ms. Sun has executed the no spouse undertaking as a replacement to the existing spouse’s undertaking as further detailed in the Company’s announcement dated 14 June 2023. The New Contractual Arrangements took effect on 4 July 2023 and the Existing Contractual Arrangements were terminated concurrently upon the New Contractual Arrangements taking effect. The Group, through the New Contractual Arrangements, has exposure and rights to variable returns from its involvement with Chengde Yushi and has ability to affect those returns through its power over Chengde Yushi. Therefore, the Group continues to have control over Chengde Yushi.

18. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved by the Board on 28 August 2023.

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), Cardiogenic 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 88 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 Huabei (華北) amounted to approximately RMB98.7 million and RMB29.7 million, respectively (six months ended 30 June 2022: approximately RMB109.2 million and RMB32.1 million, respectively).

OUTLOOK AND PROSPECTS

During the first half of 2023, with the PRC Government's favourable policies, research and development and production of anti-epidemic drugs and medical devices were promoted. Besides, digital medical care and telemedicine were also developed. With a view to attracting more capital and technology into the field of TCM, exchange of traditional Chinese medicine culture at home and abroad and development of the TCM industry chain towards a higher quality and high level are essential. In addition, investment in research and development of Chinese medicine companies has increased year by year, and the number of new products has continued to increase, which is also a major boost to the development of Chinese medicine companies.

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 will enable it to expand the distribution network and improve 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 RMB180.1 million for the Period, representing a decrease of approximately RMB16.0 million or 8.1% as compared to the six months ended 30 June 2022. The decrease in revenue was primarily attributable to by 1) the rise in the costs of commonly used raw materials; and 2) the substantial decrease in production of Vigour and Vitality Supplement Pill (補腎填精丸), one of the top selling products of the Group, due to tight supply of the relevant of raw material.

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 2022. These two products contributed approximately 45% and 45.5% of the Group’s total revenue for the Period and the six months ended 30 June 2022, 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 the Period and the six months ended 30 June 2022.

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 to approximately 32.9% from approximately 44.0% for the six months ended 30 June 2022, which was mainly due to the decreased gross profit margin of Vigour and Vitality Supplement Pill (補腎填精丸) during the Period. On the other hand, the production costs for other products were 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 10.8% from approximately RMB11.2 million for the six months ended 30 June 2022 to approximately RMB12.4 million for the Period. It was mainly due to the increase in advertisement expenses by approximately RMB1.4 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 27.6% in respect of the administrative and other operating expenses for the Period in comparison with those of the six months ended 30 June 2022. This was mainly due to the decrease of approximately RMB1.5 million in research and development expenses for the Period.

Finance costs decreased by approximately RMB2,000 from approximately RMB6,000 for the six months ended 30 June 2022 to approximately RMB4,000 for the Period, which was primarily due to the reduced interest payment relating to lease liability.

OPERATING RESULTS

Profit for the Period decreased by approximately 44.7% from approximately RMB49.9 million for the six months ended 30 June 2022 to approximately RMB27.6 million for the Period. This was primarily due to the decrease in sales of Vigour and Vitality Supplement Pill (補腎填精丸) and Additional Ingredient Huoxiang Zheng Qi Pill (加味藿香正氣丸), which were the major products of the Group during the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2023, the Group held total assets of approximately RMB499.5 million (31 December 2022: approximately RMB501.5 million), including property, plant and equipment of approximately RMB88.9 million (31 December 2022: approximately RMB78.5 million), trade and other receivables of approximately RMB80.4 million (31 December 2022: approximately RMB78.7 million) and bank balances and cash of approximately RMB281.5 million (31 December 2022: approximately RMB282.3 million).

As at 30 June 2023, the Group had total liabilities of approximately RMB46.4 million (31 December 2022: approximately RMB78.6 million), which comprises mainly of trade and other payables amounting to approximately RMB36.4 million (31 December 2022: approximately RMB64.6 million).

As at 30 June 2023, the gearing ratio, expressed as a percentage of total loans (including interest-bearing borrowings and lease liabilities) over total equity, was about 0.03% (31 December 2022: approximately 0.09%). This reduction mainly resulted from the decrease of lease liabilities during the Period.

CASHFLOW

During the Period, the Group generated net cash of approximately RMB3.7 million (six months ended 30 June 2022: approximately RMB58.5 million) from operating activities. The substantial decrease in net cash generated from operating activities mainly resulted from the substantial decrease in cash inflow from the operating profit and working capital.

Net cash used in investing activities was approximately RMB4.2 million for the Period (six months ended 30 June 2022: approximately RMB4.1 million). The increase in net cash used in investing activities resulted from the addition in acquisition of property, plant and equipment during the Period.

Net cash used in financing activities was approximately RMB0.3 million for the Period (six months ended 30 June 2022: approximately RMB8.6 million). The decrease in net cash used in financing activities mainly resulted from no dividend paid during the Period.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group had no material contingent liabilities (31 December 2022: 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 2023, the Group did not have any charge on its assets (31 December 2022: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2023, the Group had 192 employees (31 December 2022: 194). The total staff costs including directors' remuneration for the Period were approximately RMB8.7 million (six months ended 30 June 2022: approximately RMB9.6 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 2023.

CAPITAL EXPENDITURE

For the Period, the Group spent approximately RMB4.9 million (31 December 2022: approximately RMB11.7 million) on capital expenditure, which was primarily related to the acquisition of property, plant and machinery.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the Period (six months ended 30 June 2022: 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 2023:

	Planned use of Net Proceeds from the Global Offering in total		Actual use of Net Proceeds up to 31 December 2022		Amount utilised during the Period	Unutilised amount as at 30 June 2023	Expected timeline for the utilization of the remaining balance ⁽¹⁾
	(HK\$' million)	%	(HK\$' million)	(HK\$' million)	(HK\$' million)		
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	45.3	51.7	-	-	-	Not applicable
Broadening the distribution network in Huanan (華南) and Huadong (華東) in the PRC ⁽²⁾	19.7	17.3	1.6	-	-	18.1	By the end of 2023
Raising the brand awareness through media marketing and promotion efforts	12.0	10.5	12.0	-	-	-	Not applicable
Further raising the research and development efforts, procuring quality management equipment and broadening the product portfolio	23.4	20.5	9.4	0.1	-	13.9	By the third quarter of 2023
Upgrading the IT system	4.0	3.5	-	-	-	4.0	By the end of 2023
Increasing general working capital	3.3	2.9	3.3	-	-	-	Not applicable
Total	114.1	100.0	78.0	0.1	-	36.0	

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 expansion of distribution network in Huanan (華南) and Huadong (華東) in the PRC was originally scheduled to commence in the second quarter of 2023. However, due to the impact of COVID-19 pandemic, the Group is still in the course of organising a sales team. It is expected that relevant sales team will be formed by the end of 2023 and such expansion plan will be carried out thereafter.*

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 Period, 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 of the Board and an 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 2023 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 2023 and up to the date of this announcement.

EVENT AFTER THE REPORTING PERIOD

In February 2020, the Group, through its indirect wholly owned subsidiary, Shijiazhuang Medical Research Advisory Company Limited entered into the Existing Contractual Arrangements with Chengde Yushi and Mr. Xie, the then registered shareholder of Chengde Yushi. Following Ms. Sun became the registered shareholder of Chengde Yushi in December 2021 and also completed the inheritance of Mr. Xie's estate, in particular all shares Mr. Xie held in Modern Biotechnology, in early July 2023, the Group executed the New Contractual Arrangements substantially on the same terms as those currently in place under the Existing Contractual Arrangements, save that (a) the identity of the sole registered shareholder of Chengde Yushi was changed from Mr. Xie to Ms. Sun and (b) Ms. Sun has executed the no spouse undertaking as a replacement to the existing spouse's undertaking as further detailed in the Company's announcement dated 14 June 2023. The New Contractual Arrangements took effect on 4 July 2023 and the Existing Contractual Arrangements were terminated concurrently upon the New Contractual Arrangements taking effect. The Group, through the New Contractual Arrangements, has exposure and rights to variable returns from its involvement with Chengde Yushi and has ability to affect those returns through its power over Chengde Yushi. Therefore, the Group continues to have control over Chengde Yushi.

Save as disclosed above, no other important event has occurred after the Period 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. Wong Chi Kin. 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 2023 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, 28 August 2023

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. Wong Chi Kin.