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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Modern Chinese Medicine Group Co., Ltd. (the “**Company**”, and together with its subsidiaries, the “**Group**”) is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2021 (the “**Year 2021**”), together with the comparative figures for the year ended 31 December 2020 as set out below. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Company’s prospectus dated 31 December 2020 (the “**Prospectus**”). The consolidated financial statements of the Group for the Year 2021 have been reviewed by the audit committee of the Company (the “**Audit Committee**”) and agreed by the Company’s auditor.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the year ended 31 December	
	<i>Note</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue	4	360,695	308,692
Cost of sales		(202,267)	(171,831)
Gross profit		158,428	136,861
Other income	5	657	403
Selling and distribution expenses		(21,877)	(10,349)
Administrative and other operating expenses		(22,912)	(21,823)
Finance costs	6	(74)	(247)
Listing expenses		—	(14,367)
Profit before tax	6	114,222	90,478
Income tax expenses	7	(32,446)	(26,901)
Profit for the year		81,776	63,577
Other comprehensive (loss) income:			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on consolidation		(411)	1,559
Total comprehensive income for the year		81,365	65,136
Earnings per share attributable to owners of the Company		<i>RMB cents</i>	<i>RMB cents</i>
Basic and diluted	8	13.77	14.13

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December	
		2021	2020
	Note	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		71,843	11,565
Intangible assets		389	—
Right-of-use assets		2,261	2,524
Deposits paid for acquisition of property, plant and equipment		9,435	1,887
Deferred tax assets		5,170	4,418
		<u>89,098</u>	<u>20,394</u>
Current assets			
Inventories		58,692	33,964
Trade and other receivables	10	72,062	81,709
Bank balances and cash		176,091	73,191
		<u>306,845</u>	<u>188,864</u>
Current liabilities			
Trade and other payables	11	50,896	61,576
Interest-bearing borrowings		—	5,000
Lease liabilities		341	335
Income tax payables		7,276	7,312
		<u>58,513</u>	<u>74,223</u>
Net current assets		<u>248,332</u>	<u>114,641</u>
Total assets less current liabilities		<u>337,430</u>	<u>135,035</u>
Non-current liabilities			
Lease liabilities		69	203
NET ASSETS		<u><u>337,361</u></u>	<u><u>134,832</u></u>
Capital and reserves			
Share capital	12	5,010	—*
Reserves		332,351	134,832
TOTAL EQUITY		<u><u>337,361</u></u>	<u><u>134,832</u></u>

* Represent amounts less than RMB1,000.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Reserves						Total RMB'000
	Share capital RMB'000 (Note 12)	Share premium RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Statutory reserve RMB'000	Accumulated profits RMB'000	
At 1 January 2020	-*	-	29,540	(138)	15,113	24,339	68,854
Profit for the year	-	-	-	-	-	63,577	63,577
Other comprehensive income:							
<i>Items that may be reclassified subsequently to profit or loss</i>							
Exchange differences on consolidation	-	-	-	1,559	-	-	1,559
Total comprehensive income for the year	-	-	-	1,559	-	63,577	65,136
Transactions with owners:							
<i>Contributions and distributions</i>							
Capitalisation of loan from Modern Biotechnology (Note 12)	-*	842	-	-	-	-	842
At 31 December 2020	-*	842	29,540	1,421	15,113	87,916	134,832

* Represent amounts less than RMB1,000.

	Reserves						Total RMB'000
	Share capital RMB'000 (Note 12)	Share premium RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Statutory reserve RMB'000	Accumulated profits RMB'000	
At 1 January 2021	<u>-*</u>	<u>842</u>	<u>29,540</u>	<u>1,421</u>	<u>15,113</u>	<u>87,916</u>	<u>134,832</u>
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,776</u>	<u>81,776</u>
Other comprehensive loss: <i>Items that may be reclassified subsequently to profit or loss</i>							
Exchange differences on consolidation	<u>-</u>	<u>-</u>	<u>-</u>	<u>(411)</u>	<u>-</u>	<u>-</u>	<u>(411)</u>
Total comprehensive (loss) income for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(411)</u>	<u>-</u>	<u>81,776</u>	<u>81,365</u>
Transactions with owners: <i>Contributions and distributions</i>							
Issue of shares pursuant to the Global Offering (as defined in Note 12)	<u>1,252</u>	<u>146,550</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>147,802</u>
Issue of shares pursuant to the Capitalisation Issue (as defined in Note 12)	<u>3,758</u>	<u>(3,758)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Transaction costs attributable to issue of shares	<u>-</u>	<u>(26,638)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(26,638)</u>
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 31 December 2021	<u><u>5,010</u></u>	<u><u>116,996</u></u>	<u><u>29,540</u></u>	<u><u>1,010</u></u>	<u><u>15,113</u></u>	<u><u>169,692</u></u>	<u><u>337,361</u></u>

* Represent amounts less than RMB1,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2021

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

Modern Chinese Medicine Group Co., Ltd. (the “**Company**”, together with its subsidiaries are 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 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 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**”). 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 consolidated financial statements, the spouse of Mr. Xie, Ms. Sun Xinlei (“**Ms. Sun**”) had engaged her legal counsel in the BVI to process her application for the inheritance of Mr. Xie’s estate.

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**”).

Immediately prior to and after the Reorganisation, the Company and its subsidiaries now comprising the Group are ultimately controlled by the Ultimate Controlling Party. The Group’s business is mainly conducted through Chengde Yushi Jindan Pharmaceutical Co., Ltd while the Company and other entities within the Group have not been involved in any other significant activities prior to the Reorganisation. As the Reorganisation did not result in any change in the ultimate control of and the resources employed by the Group’s business, the Group is regarded as a continuity entity and, therefore, the Reorganisation is considered to be a restructuring of entities and business under common control. The consolidated financial statements are prepared using the carrying values of the entities involved in the Reorganisation for all periods presented on a basis in accordance with the principles of merger accounting as set out in Hong Kong Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

As further explained in the paragraph headed “Merger accounting for business combination involving entities under common control” below, the consolidated financial statements present the consolidated financial position, consolidated financial performance, consolidated changes in equity and consolidated cash flows of the entities now comprising the Group as if the current group structure had always been in existence throughout the reporting periods or since their respective date of establishment or incorporation, where applicable.

The consolidated financial statements have been prepared based on the accounting policies which conforms with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with the 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.

The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

These consolidated financial statements are presented in Renminbi (“**RMB**”) and all amounts have been rounded to the nearest thousand (“**RMB’000**”), unless otherwise indicated.

The consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2020 consolidated financial statements except for the adoption of the following new/revised HKFRSs that are relevant to the Group and effective from the current year.

Changes in accounting policies of new/revised HKFRSs

The Group has applied, for the first time, the following new/revised HKFRSs that are relevant to the Group:

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

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the “**Reform**”). The amendments complement those issued in November 2019 and relate to:

- changes to contractual cash flows – a company will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate;
- hedge accounting – a company will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and
- disclosures – a company will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The adoption of the amendments does not have any significant impact on the consolidated financial statements.

A summary of the significant accounting policies adopted by the Group in preparing the consolidated financial statements is set out below.

Basis of measurement

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis.

Basis of consolidations

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Company using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the Ultimate Controlling Party.

The net assets of the combining entities or businesses are combined using the existing carrying values from the Ultimate Controlling Party's perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the Ultimate Controlling Party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities, arising from the Reorganisation, are recognised directly in equity as part of the capital reserve. The consolidated/combined statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as an expense in the period in which they are incurred.

Subsidiaries

A subsidiary is an entity (including a structured entity), that is controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

In the Company's statement of financial position, investment in a subsidiary is stated at cost less impairment loss. The carrying amount of the investments is reduced to its recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of a subsidiary are accounted for by the Company on the basis of dividends received and receivable.

Future changes in HKFRSs

At the date of approving the consolidated financial statements, the HKICPA has issued the following new/revised HKFRSs that are not yet effective for the current year, which the Group has not early adopted.

Amendments to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021 ⁽¹⁾
Amendments to HKAS 16	Proceeds before Intended Use ⁽²⁾
Amendments to HKAS 37	Cost of Fulfilling a Contract ⁽²⁾
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁽²⁾
Annual Improvements to HKFRSs	2018-2020 Cycle ⁽²⁾
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁽³⁾
Amendments to HKAS 1	Disclosure of Accounting Policies ⁽³⁾
Amendments to HKAS 8	Definition of Accounting Estimates ⁽³⁾
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ⁽³⁾
HKFRS 17	Insurance Contracts ⁽³⁾
Amendment to HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information ⁽³⁾
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽⁴⁾

- (1) Effective for annual periods beginning on or after 1 April 2021
(2) Effective for annual periods beginning on or after 1 January 2022
(3) Effective for annual periods beginning on or after 1 January 2023
(4) The effective date to be determined

The management of the Group does 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 period, 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 period 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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Customer A	<u>Note</u>	<u>33,254</u>

Note: The individual customer contributed less than 10% of the total revenue of the Group for the year ended 31 December 2021.

The Group's revenue from any single external customer did not contribute 10% or more of the total revenue of the Group during the year ended 31 December 2021.

4. REVENUE

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue from contracts with customers within HKFRS 15 <i>At a point in time</i>		
– Production of PCM	<u>360,695</u>	<u>308,692</u>

5. OTHER INCOME

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest income	421	136
Exchange gain, net	36	–
Sundry income	<u>200</u>	<u>267</u>
	<u>657</u>	<u>403</u>

6. PROFIT BEFORE TAX

This is stated after charging (crediting):

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Finance costs		
Interest on interest-bearing borrowings	57	228
Interest on lease liabilities	<u>17</u>	<u>19</u>
	<u>74</u>	<u>247</u>
Staff costs (including directors' emoluments)		
Salaries, allowances, discretionary bonus, and other benefits in kind	15,407	12,313
Contributions to defined contribution plans	<u>2,963</u>	<u>1,278</u>
	<u>18,370</u>	<u>13,591</u>
Other items		
Auditor's remuneration	1,246	1,424
Cost of inventories (<i>Note</i>)	202,267	171,831
Exchange loss, net	–	58
Depreciation of right-of-use assets (charged to “administrative and other operating expenses”)	469	329
Depreciation of property, plant and equipment (charged to “cost of sales” and “administrative and other operating expenses”, as appropriate)	2,157	1,506
Amortisation of intangible assets (charged to “administrative and other operating expenses”)	97	–
Expenses recognised under short-term leases	62	238
(Reversal of) Provision for loss allowance for trade receivables, net	(30)	276
Advertising and promotion expenses (charged to “selling and distribution expenses”)	13,073	3,058
Research and development expenses	<u>10,500</u>	<u>10,200</u>

Note: Cost of inventories included approximately RMB12,571,000 and RMB2,037,000 (2020: RMB9,316,000 and RMB1,469,000) relating to staff costs and depreciation, respectively, which were included in the respective amounts as disclosed above for the year ended 31 December 2021.

7. INCOME TAX EXPENSES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current tax		
PRC enterprise income tax (“PRC EIT”)	<u>33,198</u>	<u>29,169</u>
Deferred tax		
Origination and changes in temporary differences	<u>(752)</u>	<u>(2,268)</u>
Total income tax expenses for the year	<u><u>32,446</u></u>	<u><u>26,901</u></u>

The Group 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 years ended 31 December 2021 and 2020.

Hong Kong profits tax has not been provided as the Group had no assessable profit arising from Hong Kong for the years ended 31 December 2021 and 2020.

Reconciliation of income tax expenses

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit before tax	<u>114,222</u>	<u>90,478</u>
Income tax at statutory tax rate applicable in respective tax jurisdictions	28,556	22,619
Non-deductible expenses	1,318	4,268
Deferred tax charged in respect of withholding tax on undistributed profits from a PRC subsidiary	2,529	–
Others	<u>43</u>	<u>14</u>
Income tax expenses for the year	<u><u>32,446</u></u>	<u><u>26,901</u></u>

8. EARNINGS PER SHARE

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit for the year attributable to owners of the Company, used in basic and diluted earnings per share calculation	<u>81,776</u>	<u>63,577</u>
	<i>'000</i>	<i>'000</i>
<i>Number of shares:</i>		
Weighted average number of ordinary shares for basic and diluted earnings per share calculation	<u>593,836</u>	<u>450,000</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 year. For the years ended 31 December 2021 and 2020, the weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share was on the basis as if the Reorganisation and Capitalisation issue (Note 12) had been effective on 1 January 2020.

Diluted earnings per share are same as the basic earnings per share as there were no potential dilutive ordinary shares outstanding during the years ended 31 December 2021 and 2020.

9. DIVIDENDS

Dividends payable to owners of the Company attribute to the year:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Final dividend proposed after the end of the reporting period of HK\$0.0167 (2020: nil) per ordinary share	<u>8,321,000</u>	<u>–</u>

At a meeting of the Board held on 24 March 2022, the directors recommended the payment of a final dividend of HK\$0.0167 per ordinary share. The proposed final dividend will be accounted for as an appropriation of reserves in the year ending 31 December 2022 if it is approved at the forthcoming annual general meeting. The proposed dividend have not been recognised as dividends payable in the consolidated statement of financial position.

10. TRADE AND OTHER RECEIVABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
	<i>Note</i>	
Trade receivables		
From third parties	71,849	77,850
Less: Loss allowances	<u>(359)</u>	<u>(389)</u>
	<i>10(a)</i>	
	<u>71,490</u>	<u>77,461</u>
Other receivables		
Prepayments (<i>Note</i>)	316	4,095
Other deposits and receivables	<u>256</u>	<u>153</u>
	<u>572</u>	<u>4,248</u>
	<u>72,062</u>	<u>81,709</u>

Note: The amounts at 31 December 2020 included prepaid research and development expenses of RMB1,300,000.

10(a) Trade receivables

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 30 days	38,402	45,628
31 to 60 days	<u>33,088</u>	<u>31,833</u>
	<u><u>71,490</u></u>	<u><u>77,461</u></u>

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

At the end of each reporting period, the ageing analysis of trade receivables, net of loss allowances, by due date is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Not yet past due	<u>71,490</u>	<u>77,461</u>

11. TRADE AND OTHER PAYABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables		
To third parties	<i>11(a)</i> <u>28,822</u>	<u>26,884</u>
Other payables		
Monetary marketing incentives payables (<i>Note i</i>)	7,230	11,184
Value-added tax and other tax payables	2,511	3,713
Salary payables	1,503	952
Accruals and other payables (<i>Note ii</i>)	<u>10,830</u>	<u>18,843</u>
	<u>22,074</u>	<u>34,692</u>
	<u><u>50,896</u></u>	<u><u>61,576</u></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 amounts at 31 December 2020 included accrued listing expenses of approximately RMB12,398,000.

11(a) Trade payables

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

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 30 days	27,749	25,681
31 to 60 days	1,073	1,165
61 to 90 days	—	38
	<u>28,822</u>	<u>26,884</u>

12. SHARE CAPITAL

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

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 of the Company 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.

* Represent amount less than RMB1,000.

13. COMMITMENTS

Capital expenditure commitments

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Contracted but not provided net of deposits paid for acquisition of property, plant and equipment	<u>—</u>	<u>7,548</u>

14. RELATED PARTY INFORMATION

In addition to the transactions/information disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2021 and 2020, further information of the related parties is set out below.

Related party transactions

Remuneration for key management personnel (i.e. directors of the Company) of the Group:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances, discretionary bonus, and other benefits in kind	2,328	1,071
Contributions to defined contribution plans	<u>191</u>	<u>103</u>
	<u>2,519</u>	<u>1,174</u>

15. EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2021 and up to the date of this announcement.

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. 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 for 79 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 TCM 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 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), the PRC, where the Group is strategically targeting at in view of the Group's established footprint and the large population there. For the year ended 31 December 2021 (the “**Year 2021**”), the revenue contribution from Northeast and Huanan (華南), the PRC were approximately RMB192.9 million and RMB61.7 million respectively (2020: approximately RMB165.0 million and RMB52.3 million).

BUSINESS STRATEGIES AND IMPLEMENTATION PLAN

As the shares of the Company (the “Shares”) were listed on 15 January 2021 (the “Listing Date”), the Group was at its first year 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 Year 2021. As at 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 issuance of 150,000,000 new ordinary shares of the Company by way of 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 31 December 2021:

Business Strategies	Net proceeds from the Global Offering (HK\$'million)	Actual use of proceeds (HK\$'million)	Approximate % of use of proceeds	Unutilised amount as at 31 December 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	51.7	100.0	–	
• Broadening the distribution network in Huanan (華南) and Huadong (華東) in the PRC	19.7	1.6	8.1	18.1	By the second quarter of 2023
• Raising the brand awareness through media marketing and promotion efforts	12.0	12.0	100.0	–	
• Further raising the research and development (“R&D”) efforts, procuring quality management equipment and broadening the product portfolio	23.4	7.0	29.9	16.4	By the third quarter of 2023
• Upgrading the IT system	4.0	–	–	4.0	By the end of 2022
• Increasing general working capital	3.3	2.1	63.6	1.2	By the second quarter of 2022
• Total	<u>114.1</u>	<u>74.4</u>	<u>65.2</u>	<u>39.7</u>	

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.

FINANCIAL REVIEW

The Group posted a consolidated revenue of approximately RMB360.7 million for the Year 2021, representing an increase of approximately RMB52.0 million or 16.8% as compared to the year ended 31 December 2020. The increase in revenue was primarily driven by the surge in revenue generated from the sales of Vigour and Vitality Supplement Pill (補腎填精丸) and Kidney Invigoration Pill (金匱腎氣丸) which have an intended therapeutic effect of, amongst others, replenishing Qi (氣); and improving kidney related conditions.

Vigour and Vitality Supplement Pill (補腎填精丸) and Circulation Enhancement Pill (氣血雙補丸) were the top selling products for both the Year 2021 and the year ended 31 December 2020. These two products contributed approximately 42.6% and 38.3% of the Group's total revenue for the Year 2021 and the year ended 31 December 2020, respectively.

The 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 symptoms of COVID-19 and/or similar illness, exhibited a decline in revenue for the Year 2021 compared to that of the year ended 31 December 2020 as demand for these two products diminished due to the conscientious effort taken by the PRC government to control the COVID-19 pandemic in the Year 2021. However, the increase of revenue generated from Vigour and Vitality Supplement Pill (補腎填精丸) has outweighed such impact.

Details of the Group's revenue breakdown by geographic location are as follows

	For the year ended 31 December			
	2021		2020	
	<i>RMB'000</i>	<i>Approximate % of total revenue</i>	<i>RMB'000</i>	<i>Approximate % of total revenue</i>
Northeast (<i>Note (i)</i>)	192,872	53.5	164,994	53.4
Huadong (華東) (<i>Note (ii)</i>)	29,671	8.2	25,800	8.4
Huanan (華南) (<i>Note (iii)</i>)	61,727	17.1	52,335	17.0
Huabei (華北) (<i>Note (iv)</i>)	60,458	16.8	55,053	17.8
Southwest (<i>Note (v)</i>)	8,408	2.3	6,267	2.0
Northwest (<i>Note (vi)</i>)	7,559	2.1	4,243	1.4
Total	<u>360,695</u>	<u>100.0</u>	<u>308,692</u>	<u>100.0</u>

Notes:

- (i) Northeast represents Heilongjiang, Jilin, Liaoning, the PRC
- (ii) Huadong (華東) represents Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong, the PRC
- (iii) Huanan (華南) represents Henan, Hubei, Hunan, Guangxi, Guangdong, Hainan, the PRC
- (iv) Huabei (華北) represents Beijing, Tianjin, Shanxi, Hebei, Inner Mongolia, the PRC
- (v) Southwest represents Chongqing, Sichuan, Guizhou, Yunnan, Tibet, the PRC
- (vi) Northwest represents Shaanxi, Gansu, Qinghai, Ningxia Hui, Xinjiang, the PRC

Northeast remained the largest contributor to the Group's total revenue for the Year 2021. It contributed over 50% of the Group's total revenue for both the Year 2021 and the year ended 31 December 2020. In terms of absolute dollar amount, performance for all other regions for the Year 2021 has, nevertheless, shown an increase in revenue over that of the year ended 31 December 2020. The increase in total revenue by approximately 16.8% for the Year 2021 as compared to that of the year ended 31 December 2020 was mainly due to the growth from Northeast, and Huanan (華南) by approximately RMB27.9 million and RMB9.4 million, respectively.

For the Year 2021, the overall gross profit margin decreased slightly to approximately 43.9% as compared to approximately 44.3% for the year ended 31 December 2020. This was mainly due to the increase in revenue generated from sales of Vigour and Vitality Supplement Pill (補腎填精丸), which had a relatively lower gross profit margin than those of the other PCM products.

In any event, the Group manages to maintain the overall gross profit margin while allowing flexible price adjustments for individual products.

OPERATING COSTS AND EXPENSES

Selling and distribution expenses of the Group increased significantly by approximately 111.4% from approximately RMB10.3 million for the year ended 31 December 2020 to approximately RMB21.9 million for the Year 2021. This was mainly due to the increase in advertising and promotions by approximately RMB10.0 million spent on the railway-body and public transport advertisement promotion in the Year 2021.

Administrative and other operating expenses consist primarily of staff costs, legal and professional fees, other taxes, R&D costs and others. There was an increase of approximately 5.0% in the administrative and other operating expense for the Year 2021 in comparison with those of the year ended 31 December 2020. This was mainly due to an increase of approximately RMB1.8 million in legal and other professional fee during the Year 2021.

Finance costs decreased by approximately RMB173,000 for the Year 2021, such decrease was primarily due to the full repayment of the interest-bearing borrowings during the Year 2021.

OPERATING RESULTS

Profit before tax increased by approximately 26.2% from approximately RMB90.5 million for the year ended 31 December 2020 to approximately RMB114.2 million for the Year 2021, which was primarily resulted from the increase in the sales of Vigour and Vitality Supplement Pill (補腎填精丸) and Kidney Invigoration Pill (金匱腎氣丸) during the Year 2021.

LIQUIDITY AND FINANCIAL RESOURCES

The Shares were successfully listed on the Stock Exchange on 15 January 2021. There has been no change in the capital structure of the Group since then. During the Year 2021, the Group funded 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 31 December 2021, the Group held total assets of approximately RMB395.9 million (31 December 2020: approximately RMB209.3 million), including bank balances and cash of approximately RMB176.1 million (31 December 2020: approximately RMB73.2 million).

As at 31 December 2021, the Group had total liabilities of approximately RMB58.6 million (31 December 2020: approximately RMB74.4 million) which comprise mainly of trade and other payables amounting to approximately RMB50.9 million (31 December 2020: approximately RMB61.6 million).

As at 31 December 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 3.9%). This significant reduction was mainly resulted from the increase in total equity and the full repayment of the interest-bearing borrowings during the Year of 2021.

Notwithstanding the continuing uncertainty over the COVID-19 pandemic in the PRC, the Board considered its liquidity position and working capital sufficiency as not being adversely affected.

CONTINGENT LIABILITIES

As at 31 December 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

As at 31 December 2021, the Group had not pledged any right-of-use assets to secure the interest bearing borrowing facility (31 December 2020: the Group's right of use assets in respect of leasehold land with a carrying amount of approximately RMB780,000 were pledged).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the Group had 196 employees (31 December 2020: 172). The total staff costs including directors' remuneration for the Year 2021 were approximately RMB18.4 million (for the year ended 31 December 2020: approximately RMB13.6 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 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 Year 2021.

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries, associated companies and joint ventures as at 31 December 2021.

CAPITAL EXPENDITURE

For the Year 2021, the Group spent approximately RMB62.4 million (for the year ended 31 December 2020: approximately RMB0.5 million) on capital expenditure, which was primarily related to the construction of new production lines, workshops and manufacturing infrastructures for enhancing and expanding our production capacity, which is in line with the implementation progress mentioned in the Prospectus.

DIVIDEND

The Board recommends a final dividend of HK\$0.0167 per ordinary share for the Year 2021 (2020: Nil), being approximately HK\$10.0 million in aggregate. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual meeting.

OTHER INFORMATION

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities after the Listing Date and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules during the Year 2021, save for the deviations from code provisions C.2.1.

Under code provision C.2.1, the roles of chairman and chief executive 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 death 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 Board will continue to review and monitor the corporate governance practices of the Company for the purpose of complying with the code provisions of the CG Code and maintaining a high standard of corporate governance of the Company.

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 Year 2021.

CONTRACTUAL ARRANGEMENTS

As confirmed by the PRC legal advisers to the Company, notwithstanding the death of Mr. Xie on 24 December 2021, the existing Contractual Arrangements remain in full force.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Company has established the Audit Committee with written terms of reference in compliance with the CG Code. As of the date of this announcement, the Audit Committee consists of three independent non-executive Directors, namely Ms. Liu Ling, Mr. Leung Tsz Wing (chairman) and Mr. Chan Kam Leung. The Audit Committee examined the accounting principles and practices adopted by the Group and discussed with management its internal controls. The Audit Committee has reviewed the consolidated financial results of the Group for the Year 2021.

SCOPE OF WORK OF MAZARS CPA LIMITED

The figures in respect of the preliminary announcement of the Group’s consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and the related notes thereto for the Year 2021 have been agreed by the Group’s auditor, Mazars CPA Limited, to the amounts set out in the Group’s consolidated financial statements for the Year 2021. The work performed by Mazars CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Mazars CPA Limited on this preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement has been published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cdysjdyy.com). The annual report of the Company will be published on the aforesaid websites and dispatched to the shareholders of the Company in due course.

By order of the Board
Modern Chinese Medicine Group Co., Ltd.
Zhang Hongli
Executive Director

Hong Kong, 24 March 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.