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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 2022**

#### **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 consolidated financial results of the Group for the year ended 31 December 2022 (the “**Year 2022**”), together with the comparative figures for the year ended 31 December 2021 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 2021 annual report. The consolidated financial statements of the Group for the Year 2022 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

	<i>Notes</i>	For the year ended 31 December	
		2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Revenue</b>	4	<b>399,656</b>	360,695
Cost of sales		<u>(228,870)</u>	<u>(202,267)</u>
<b>Gross profit</b>		<b>170,786</b>	158,428
Other income, gain and losses, net	5	(4,757)	657
Selling and distribution expenses		(25,432)	(21,877)
Administrative and other operating expenses		(16,259)	(22,912)
Finance costs	6	<u>(14)</u>	<u>(74)</u>
<b>Profit before tax</b>	6	<b>124,324</b>	114,222
Income tax expenses	7	<u>(36,495)</u>	<u>(32,446)</u>
<b>Profit for the year</b>		<u><b>87,829</b></u>	<u>81,776</u>
<b>Other comprehensive income (loss):</b>			
<i>Item that will not be reclassified to profit or loss</i>			
Exchange differences on translation from functional currency to presentation currency		7,437	–
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences on consolidation		<u>(1,371)</u>	<u>(411)</u>
Other comprehensive income (loss) for the year, net of tax		<u>6,066</u>	<u>(411)</u>
<b>Total comprehensive income for the year</b>		<u><b>93,895</b></u>	<u>81,365</u>
<b>Earnings per share attributable to owners of the Company</b>			
		<i>RMB cents</i>	<i>RMB cents</i>
Basic and diluted	8	<u><b>14.64</b></u>	<u>13.77</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December	
		2022	2021
	Notes	RMB'000	RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		78,452	71,843
Intangible assets		292	389
Right-of-use assets		2,154	2,261
Deposits paid for acquisition of property, plant and equipment	10	9,435	9,435
Deferred tax assets		8,711	5,170
		<u>99,044</u>	<u>89,098</u>
<b>Current assets</b>			
Inventories		41,509	58,692
Trade and other receivables	11	78,725	72,062
Bank balances and cash		282,256	176,091
		<u>402,490</u>	<u>306,845</u>
<b>Current liabilities</b>			
Trade and other payables	12	64,617	50,896
Lease liabilities		393	341
Income tax payables		8,344	7,276
		<u>73,354</u>	<u>58,513</u>
<b>Net current assets</b>		<u>329,136</u>	<u>248,332</u>
<b>Total assets less current liabilities</b>		<u>428,180</u>	<u>337,430</u>
<b>Non-current liabilities</b>			
Lease liabilities		–	69
Deferred tax liabilities		5,246	–
		<u>5,246</u>	<u>69</u>
<b>NET ASSETS</b>		<u>422,934</u>	<u>337,361</u>
<b>Capital and reserves</b>			
Share capital	13	5,010	5,010
Reserves		417,924	332,351
<b>TOTAL EQUITY</b>		<u>422,934</u>	<u>337,361</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital RMB'000 (Note 13)	Reserves					Total RMB'000
		Share premium RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Statutory reserve RMB'000	Accumulated profits RMB'000	
At 1 January 2021	—*	842	29,540	1,421	15,113	87,916	134,832
Profit for the year	—	—	—	—	—	81,776	81,776
Other comprehensive loss: <i>Item that may be reclassified subsequently to profit or loss</i>							
Exchange differences on consolidation	—	—	—	(411)	—	—	(411)
Other comprehensive expense for the year, net of tax	—	—	—	(411)	—	—	(411)
Total comprehensive (loss) income for the year	—	—	—	(411)	—	81,776	81,365
Transactions with owners: <i>Contributions and distributions</i>							
Issue of shares pursuant to the Global Offering (as defined in Note 13)	1,252	146,550	—	—	—	—	147,802
Issue of shares pursuant to the Capitalisation Issue (as defined in Note 13)	3,758	(3,758)	—	—	—	—	—
Transaction costs attributable to issue of shares	—	(26,638)	—	—	—	—	(26,638)
Total transactions with owners	5,010	116,154	—	—	—	—	121,164
At 31 December 2021	<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>

\* Represent amounts less than RMB1,000.

	Reserves						Total RMB'000
	Share capital RMB'000 (Note 13)	Share premium RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Statutory reserve RMB'000	Accumulated profits RMB'000	
At 1 January 2022	5,010	116,996	29,540	1,010	15,113	169,692	337,361
Profit for the year	-	-	-	-	-	87,829	87,829
<b>Other comprehensive income:</b>							
<i>Item that will not be reclassified to profit or loss</i>							
Exchange differences on translation from functional currency to presentation currency	-	-	-	7,437	-	-	7,437
<i>Item that may be reclassified subsequently to profit or loss</i>							
Exchange differences on consolidation	-	-	-	(1,371)	-	-	(1,371)
Other comprehensive income for the year, net of tax	-	-	-	6,066	-	-	6,066
<b>Total comprehensive income for the year</b>	-	-	-	6,066	-	87,829	93,895
<b>Transactions with owners:</b>							
<i>Contributions and distributions</i>							
2021 final dividend approved and paid (Note 9(b))	-	(8,322)	-	-	-	-	(8,322)
<b>Total transactions with owners</b>	-	(8,322)	-	-	-	-	(8,322)
At 31 December 2022	<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>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2022

## 1. CORPORATE INFORMATION

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 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 of the Company is changed from Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong to 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, 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., 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, 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 had (i) engaged her legal counsel in the BVI to process her application for the inheritance of Mr. Xie’s estate, and (ii) received preliminary requisitions from the BVI Court regarding such application.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The consolidated financial statements have been 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 Hong Kong Institute of Certified Public Accountants (“**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 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 2021 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 HKFRS 16	Covid-19-Related Rent Concessions Beyond 30 June 2021
Amendments to HKAS 16	Proceeds before Intended Use
Amendments to HKAS 37	Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Annual Improvements to HKFRSs	2018-2020 Cycle

### ***Amendments to HKFRS 16: Covid-19-Related Rent Concessions Beyond 30 June 2021***

The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to Covid-19-related rent concessions that reduce lease payments due on or before 30 June 2022. The amendments do not affect lessors.

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

### ***Amendments to HKAS 16: Proceeds before Intended Use***

The amendments clarify the accounting requirements for proceeds received by an entity from selling items produced while testing an item of property, plant or equipment before it is used for its intended purpose. An entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss and measures the cost of those items applying the measurement requirements of HKAS 2.

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

### ***Amendments to HKAS 37: Cost of Fulfilling a Contract***

The amendments clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (for example, direct labour and materials) and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

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

### ***Amendments to HKFRS 3: Reference to the Conceptual Framework***

The amendments update a reference in HKFRS 3 to the Conceptual Framework for Financial Reporting issued in 2018. The amendments also add to HKFRS 3 an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying HKFRS 3 should instead refer to HKAS 37. The exception has been added to avoid an unintended consequence of updating the reference.

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

## **Annual Improvements Project – 2018-2020 Cycle**

### *HKFRS 1: Subsidiary as a First-time Adopter*

This amendment simplifies the application of HKFRS 1 for a subsidiary that becomes a first-time adopter of HKFRSs later than its parent – i.e. if a subsidiary adopts HKFRSs later than its parent and applies HKFRS 1.D16(a), then a subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent’s date of transition to HKFRSs.

### *HKFRS 9: Fees in the “10 per cent” Test for Derecognition of Financial Liabilities*

This amendment clarifies that – for the purpose of performing the “10 per cent test” for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf.

### *HKFRS 16: Lease Incentives*

The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, Example 13 is not clear as to why such payments are not a lease incentive.

### *HKAS 41: Taxation in Fair Value Measurements*

This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in HKAS 41 with those in HKFRS 13.

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

A summary of the principal 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.

## **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 HKAS 1	Disclosure of Accounting Policies <sup>(1)</sup>
Amendments to HKAS 8	Definition of Accounting Estimates <sup>(1)</sup>
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction <sup>(1)</sup>
HKFRS 17	Insurance Contracts <sup>(1)</sup>
Amendment to HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information <sup>(1)</sup>
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current <sup>(2)</sup>
Amendments to HKAS 1	Non-current Liabilities with Covenants <sup>(2)</sup>
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback <sup>(2)</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>(3)</sup>

<sup>(1)</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>(2)</sup> Effective for annual periods beginning on or after 1 January 2024

<sup>(3)</sup> 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.

The Group did not have any single external customer contributing 10% or more of the total revenue of the Group during the year ended 31 December 2022 and 2021.

## 4. REVENUE

	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Revenue from contracts with customers within HKFRS 15		
<i>At a point in time</i>		
– Production of PCM	<b><u>399,656</u></b>	<u>360,695</u>

## 5. OTHER INCOME, GAINS AND LOSSES, NET

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interest income	675	421
Government grants received ( <i>Note</i> )	62	–
Exchange (loss) gain, net	(5,913)	36
Sundry income	419	200
	<u>419</u>	<u>200</u>
	<u>(4,757)</u>	<u>657</u>

*Note:* The amount represented the government grant obtained from Employment Support Scheme under the Anti-epidemic Fund launched by the Government of Hong Kong Special Administrative Region in supporting the salary cost of the Group during the year ended 31 December 2022.

## 6. PROFIT BEFORE TAX

This is stated after charging (crediting):

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Finance costs</b>		
Interest on interest-bearing borrowings	–	57
Interest on lease liabilities	14	17
	<u>14</u>	<u>74</u>
<b>Staff costs (including directors' emoluments)</b>		
Salaries, allowances, discretionary bonus, and other benefits in kind	15,568	15,407
Contributions to defined contribution plans	2,896	2,963
	<u>18,464</u>	<u>18,370</u>
<b>Other items</b>		
Auditor's remuneration	1,288	1,246
Cost of inventories ( <i>Note</i> )	228,870	202,267
Depreciation of right-of-use assets (charged to "administrative and other operating expenses")	480	469
Depreciation of property, plant and equipment (charged to "cost of sales" and "administrative and other operating expenses", as appropriate)	5,114	2,157
Amortisation of intangible assets (charged to "administrative and other operating expenses")	97	97
Expenses recognised under short-term leases	92	62
Provision for (Reversal of) loss allowance for trade receivables, net	33	(30)
Advertising and promotion expenses (charged to "selling and distribution expenses")	15,908	13,073
Research and development expenses	3,000	10,500
	<u>3,000</u>	<u>10,500</u>

*Note:* Cost of inventories included approximately RMB12,850,000 and RMB5,073,000 (2021: RMB12,571,000 and RMB2,037,000) relating to staff costs and depreciation, respectively, which were included in the respective amounts as disclosed above for the year ended 31 December 2022.

## 7. INCOME TAX EXPENSES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Current tax</b>		
PRC enterprise income tax (“PRC EIT”)	<u>34,790</u>	<u>33,198</u>
<b>Deferred tax</b>		
Origination and changes in temporary differences	<u>1,705</u>	<u>(752)</u>
<b>Total income tax expenses for the year</b>	<u><u>36,495</u></u>	<u><u>32,446</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 2022 and 2021.

Hong Kong Profits Tax has not been provided as the Group had no assessable profits arising from Hong Kong for the years ended 31 December 2022 and 2021.

### Reconciliation of income tax expenses

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit before tax	<u>124,324</u>	<u>114,222</u>
Income tax at statutory tax rate applicable in respective tax jurisdictions	31,081	28,556
Non-deductible expenses	2,904	1,318
Deferred tax charged in respect of withholding tax on undistributed profits from a PRC subsidiary	2,717	2,529
Tax exempt revenue	(207)	(37)
Others	<u>–</u>	<u>80</u>
Income tax expenses for the year	<u><u>36,495</u></u>	<u><u>32,446</u></u>

## 8. EARNINGS PER SHARE

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit for the year attributable to owners of the Company, used in basic and diluted earnings per share calculation	<u>87,829</u>	<u>81,776</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>600,000</u>	<u>593,836</u>

The calculation of basic earnings per share is based on the profit attributable to owners of the Company and the weighted average number of ordinary shares in issue during the year.

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 2022 and 2021.

## 9. DIVIDENDS

(a) Dividends payable to owners of the Company attribute to the year:

	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Final dividend proposed after the end of the reporting period of nil (2021: HK\$0.0167) per ordinary share	<u>–</u>	<u>8,322</u>

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: recommended the payment of a final dividend of HK\$0.0167 per ordinary share).

(b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the year:

	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.0167 (2021: Nil) per ordinary share	<u>8,322</u>	<u>–</u>

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

	<b>2022</b>	2021
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Deposit paid	<u>9,435</u>	<u>9,435</u>

At 31 December 2022 and 2021, 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**”). Subsequent to the reporting date, the Plant and Machinery has been delivered to the Group and the deposit will be reclassified to Property, Plant and Equipment when it is ready for commercial operation. The Group had no capital commitment in relation to the Plant and Machinery at 31 December 2022.

## 11. TRADE AND OTHER RECEIVABLES

	<i>Note</i>	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Trade receivables</b>			
From third parties		<b>78,479</b>	71,849
Less: Loss allowances		<u>(392)</u>	<u>(359)</u>
	<i>11(a)</i>	<u><b>78,087</b></u>	<u>71,490</u>
<b>Other receivables</b>			
Prepayments		<b>354</b>	316
Other deposits and receivables		<u>284</u>	<u>256</u>
		<u><b>638</b></u>	<u>572</u>
		<u><b>78,725</b></u>	<u>72,062</u>

### 11(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:

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 30 days	<b>42,171</b>	38,402
31 to 60 days	<u><b>35,916</b></u>	<u>33,088</u>
	<u><b>78,087</b></u>	<u>71,490</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:

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
Not yet past due	<u><b>78,087</b></u>	<u>71,490</u>

## 12. TRADE AND OTHER PAYABLES

	<i>Note</i>	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Trade payables</b>			
To third parties	<i>12(a)</i>	<u>39,261</u>	<u>28,822</u>
<b>Other payables</b>			
Monetary marketing incentives payables ( <i>Note i</i> )		8,779	7,230
Value-added tax and other tax payables		3,168	2,511
Salary payables		2,165	1,503
Accruals and other payables		<u>11,244</u>	<u>10,830</u>
		<u>25,356</u>	<u>22,074</u>
		<u><b>64,617</b></u>	<u><b>50,896</b></u>

*Note (i):* The credit terms for the monetary marketing incentives payables are not more than 90 days from the date of issuance of invoices.

### 12(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:

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 30 days	39,261	27,749
31 to 60 days	<u>–</u>	<u>1,073</u>
	<u><b>39,261</b></u>	<u><b>28,822</b></u>

### 13. SHARE CAPITAL

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

Notes:

- (a) Pursuant to the resolution in writing of the Company's shareholders passed on 18 December 2020, subject to the share premium account of the Company being credited as a result of the offering of the Company's shares, the directors 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.
- (b) On 15 January 2021, the shares of the Company were listed on the Main Board of the Stock Exchange and 150,000,000 new ordinary shares of HK\$0.01 each were issued at HK\$1.18 per share by way of global offering (the "**Global Offering**"). The gross proceeds from the Global Offering amounted to HK\$177,000,000 (equivalent to approximately RMB147,802,000). The expenses attributable to issue of shares pursuant to the Global Offering of approximately HK\$31,891,000 (equivalent to approximately RMB26,638,000) were recognised in the share premium account of the Company.

\* Represent amount less than RMB1,000.

### 14. RELATED PARTY INFORMATION

In addition to the transactions/information disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2022 and 2021, 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:

	2022 RMB'000	2021 RMB'000
Salaries, housing allowances, other allowances, discretionary bonus, and other benefits in kind	2,108	2,328
Contributions to defined contribution plans	101	191
	<b>2,209</b>	<b>2,519</b>

## 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), Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸), Cardiotonic Enhancement Capsule (山玫膠囊), Heart Wellness Capsule (心安膠囊), Kidney Invigoration Pill (金匱腎氣丸), Liver-dispersing and Stomach Regulating Pill (舒肝和胃丸), Liver Detox Tablet (護肝片), Bazhen Yimu Pill (八珍益母丸) and Menstrual Discomfort Relief Pill (加味逍遙丸).

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) kidney condition; (ii) cardio-cerebrovascular condition; (iii) Qi (氣) – deficiency and blood-stasis condition; (iv) digestive and gastrointestinal condition; and (v) gynaecological condition. Some of the Group’s major products are believed to be having the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illnesses.

The Group has currently established a distribution network of 83 distributors covering about 40 cities in the PRC, which are in turn served and administered by over 37 marketing staff members with relevant experience in the traditional Chinese medicine industry. It is believed that the Group’s distribution network and distributorship model will continue to support further development of the Group’s business operations in the foreseeable future. In addition, the distribution network would not only help to develop the business operations geographically from Northeast and Huanan (華南) to other areas in the PRC, but also allow the Group to penetrate in reasonably extensive width and breadth both in Northeast and Huanan (華南), where the Group is strategically targeting at in view of the Group’s established footprint and the large population there. For the year ended 31 December 2022, the revenue contribution from Northeast, Huabei (華北) and Huanan (華南), amounted to approximately RMB219.9 million, RMB67.0 million and RMB65.1 million, respectively (2021: approximately RMB192.9 million, RMB60.5 million and RMB61.7 million).

## 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 of the Company dated 31 December 2020 (the “**Prospectus**”) during the Year 2022. 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 (the “**Net Proceeds**”) and actual usage up to 31 December 2022:

Business Strategies	Planned use of Net Proceeds from Global Offering in total		Actual use of Net Proceeds up to 31 December 2021	Amount utilised during the year ended 31 December 2022	Unutilised amount as at 31 December 2022	Expected timeline for the utilisation of the remaining balance <sup>(1)</sup>
	(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 <sup>(2)</sup>	51.7	45.3	51.7	–	–	Not applicable
• Broadening the distribution network in Huanan (華南) and Huadong (華東) in the PRC	19.7	17.3	1.6	–	18.1	By the second quarter 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 (“R&D”) efforts, procuring quality management equipment and broadening the product portfolio	23.4	20.5	7.0	2.4	14.0	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	2.1	1.2	–	Not applicable
<b>Total</b>	<b>114.1</b>	<b>100.0</b>	<b>74.4</b>	<b>3.6</b>	<b>36.1</b>	

### Notes:

- (1) The unused proceeds are currently placed into authorised financial institution(s) and/or licensed entity(ies). The expected timeline for utilising the net proceeds from the Global Offering is based on the best estimation of future market conditions made by the Group and subject to changes in accordance with our actual business operation. If there is any change in the use of proceeds, the Company will publish a separate announcement accordingly.
- (2) The new production line, which was originally scheduled to commence trial production in the second quarter of 2022, has been delayed due to the impact of COVID-19 pandemic. The trial production has commenced at the end of 2022. The new product line is expected to commence production officially in mid-2023.

## FINANCIAL REVIEW

The Group posted a consolidated revenue of approximately RMB399.7 million for the Year 2022, representing an increase of approximately RMB39.0 million or 10.8% as compared to the year ended 31 December 2021. The increase in revenue was primarily driven by the surge in revenue generated from the sales of our major products, namely Additional Ingredient Huoxiang Zheng Qi Pill (加味藿香正氣丸), Vigour and Vitality Supplement Pill (補腎填精丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) due to the improved marketing tactics adopted by our existing distributors.

Fever-removing and Detoxification Pill (清瘟解毒丸) and Additional Ingredient Huoxiang Zheng Qi Pill (加味藿香正氣丸) were believed to have intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness.

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

Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸) and Additional Ingredient Huoxiang Zheng Qi Pill (加味藿香正氣丸) were the three top selling products for the Year 2022. These three products contributed approximately 28.7% (2021: 27.4%), 15.0% (2021: 15.3%) and 12.1% (2021: 8.4%) of the Group's total revenue for the Year 2022, respectively.

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

	For the year ended 31 December			
	2022		2021	
	<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>	219,877	55.0	192,872	53.5
Huadong (華東) <i>(Note (ii))</i>	31,948	8.0	29,671	8.2
Huanan (華南) <i>(Note (iii))</i>	65,108	16.3	61,727	17.1
Huabei (華北) <i>(Note (iv))</i>	67,006	16.8	60,458	16.8
Southwest <i>(Note (v))</i>	9,179	2.3	8,408	2.3
Northwest <i>(Note (vi))</i>	6,538	1.6	7,559	2.1
Total	<u>399,656</u>	<u>100.0</u>	<u>360,695</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 2022. It contributed 55.0% and 53.5% of the total revenue of the Group for the Year 2022 and the year ended 31 December 2021, respectively. The increase in total revenue of the Group by approximately 10.8% during the Year 2022 as compared to that of the year ended 31 December 2021 was mainly due to the sales growth in Northeast and Huabei (華北) by approximately RMB27.0 million and approximately RMB6.5 million, respectively.

The Group manages the overall gross profit margin to ensure the profitability of the Group while allowing flexible price adjustments for individual products. The overall gross profit margin for the Year 2022 decreased slightly to approximately 42.7% as compared to approximately 43.9% for the year ended 31 December 2021. It was mainly due to the relatively lower gross profit margin of Vigour and Vitality Supplement Pill (補腎填精丸), the sales revenue of which increased by approximately RMB15.9 million during the Year 2022. 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 Year 2022, 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 16.2% from approximately RMB21.9 million for the year ended 31 December 2021 to approximately RMB25.4 million for the Year 2022. This was mainly due to the increase in advertising and promotions by approximately RMB2.8 million spent on various marketing campaigns for promoting the Group's brand name and the increase in freight charges by approximately RMB0.9 million during the Year 2022.

Administrative and other operating expenses consist primarily of staff costs, legal and professional fees, other taxes, R&D costs and others. There was a significant decrease of approximately 29.0% in the administrative and other operating expenses for the Year 2022 to approximately RMB16.3 million for the Year 2022 in comparison with those of the year ended 31 December 2021 amounting to approximately RMB22.9 million. This was mainly due to the decrease of approximately RMB7.5 million in research and development expenses during the Year 2022.

Finance costs decreased by approximately RMB60,000 for the Year 2022. Such decrease was primarily due to the full repayment of the interest-bearing borrowings during the year ended 31 December 2021.

## **OPERATING RESULTS**

Profit before tax increased by approximately 8.8% from approximately RMB114.2 million for the year ended 31 December 2021 to approximately RMB124.3 million for the Year 2022. This was primarily due to the increase in sales of Additional Ingredient Huoxiang Zheng Qi Pill (加味藿香正氣丸), Vigour and Vitality Supplement Pill (補腎填精丸) and Fever-removing and Detoxification Pill (清瘟解毒丸), which were the major products of the Group during the Year 2022.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2022, the Group held total assets of approximately RMB501.5 million (31 December 2021: approximately RMB395.9 million), including bank balances and cash of approximately RMB282.3 million (31 December 2021: approximately RMB176.1 million).

As at 31 December 2022, the Group had total liabilities of approximately RMB78.6 million (31 December 2021: approximately RMB58.6 million) which comprise mainly of trade and other payables amounting to approximately RMB64.6 million (31 December 2021: approximately RMB50.9 million).

As at 31 December 2022, the gearing ratio, expressed as a percentage of total borrowings over total equity, was about 0.09% (31 December 2021: approximately 0.12%). This reduction resulted from the full repayment of the interest-bearing borrowings during the year ended 31 December 2021.

## **CONTINGENT LIABILITIES**

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

## **EXPOSURE TO FLUCTUATION IN EXCHANGE RATE**

The majority of the Group's business is 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 2022, the Group did not have any charge on its assets (31 December 2021: Nil).

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2022, the Group had 194 employees (31 December 2021: 196). The total staff costs including directors' remuneration for the Year 2022 were approximately RMB18.5 million (Year ended 31 December 2021: approximately RMB18.4 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 2022.

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries, associated companies and joint ventures as at 31 December 2022.

## **CAPITAL EXPENDITURE**

For the Year 2022, the Group spent approximately RMB11.7 million (Year ended 31 December 2021: approximately RMB62.4 million) on capital expenditure, which was primarily related to the acquisition of property, plant and machinery in accordance with the planned use of net proceeds from the Global Offering as disclosed in the Prospectus.

## **DIVIDEND**

The Directors do not recommend the payment of final dividend for the year ended 31 December 2022 (2021: HK\$0.0167 per ordinary share).

## **OTHER INFORMATION**

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

During the Year 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

### **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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the basis of the Company's corporate governance practices.

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

*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 2022.

### **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 2022.

## **SCOPE OF WORK OF MAZARS CPA LIMITED**

The figures in respect of the Company'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 2022 as set out in this announcement have been agreed by the Company's auditor, Mazars CPA Limited, to the amounts set out in the Company's consolidated financial statements for the Year 2022. 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](http://www.hkexnews.hk)) and the Company ([www.cdysjdyy.com](http://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, 23 March 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. Chan Kam Leung.*