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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 2023**

#### **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 2023 (the “**Year 2023**”), together with the comparative figures for the year ended 31 December 2022 (the “**Year 2022**”) as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	For the year ended 31 December	
		2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
<b>Revenue</b>	4	344,075	399,656
Cost of sales		<u>(239,900)</u>	<u>(228,870)</u>
<b>Gross profit</b>		<b>104,175</b>	170,786
Other income, gain and losses, net	5	(56)	(4,757)
Selling and distribution expenses		(24,378)	(25,432)
Administrative and other operating expenses		(11,430)	(16,259)
Finance costs	6	<u>(5)</u>	<u>(14)</u>
<b>Profit before tax</b>	6	<b>68,306</b>	124,324
Income tax expenses	7	<u>(19,511)</u>	<u>(36,495)</u>
<b>Profit for the year</b>		<u><b>48,795</b></u>	<u>87,829</u>
<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		1,194	7,437
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences on consolidation		<u>(34)</u>	<u>(1,371)</u>
Other comprehensive income for the year, net of tax		<u>1,160</u>	<u>6,066</u>
<b>Total comprehensive income for the year</b>		<u><b>49,955</b></u>	<u>93,895</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>8.13</b></u>	<u>14.64</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December	
		2023	2022
	Notes	RMB'000	RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		85,904	78,452
Intangible assets		195	292
Right-of-use assets		1,807	2,154
Deposits paid for acquisition of property, plant and equipment	10	–	9,435
Deferred tax assets		4,113	8,711
		<u>92,019</u>	<u>99,044</u>
<b>Current assets</b>			
Inventories		46,466	41,509
Trade and other receivables	11	103,781	78,725
Bank balances and cash		286,266	282,256
		<u>436,513</u>	<u>402,490</u>
<b>Current liabilities</b>			
Trade and other payables	12	48,802	64,617
Lease liabilities		72	393
Income tax payables		14	8,344
		<u>48,888</u>	<u>73,354</u>
<b>Net current assets</b>		<u>387,625</u>	<u>329,136</u>
<b>Total assets less current liabilities</b>		<u>479,644</u>	<u>428,180</u>
<b>Non-current liability</b>			
Deferred tax liabilities		6,755	5,246
		<u>6,755</u>	<u>5,246</u>
<b>NET ASSETS</b>		<u><u>472,889</u></u>	<u><u>422,934</u></u>
<b>Capital and reserves</b>			
Share capital	13	5,010	5,010
Reserves		467,879	417,924
<b>TOTAL EQUITY</b>		<u><u>472,889</u></u>	<u><u>422,934</u></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 2022	5,010	116,996	29,540	1,010	15,113	169,692	337,361
Profit for the year	-	-	-	-	-	87,829	87,829
Other comprehensive loss:							
<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
Total comprehensive income for the year	-	-	-	6,066	-	87,829	93,895
Transactions with owners:							
<i>Contributions and distributions</i>							
2022 final dividend approved and paid (Note 9(b))	-	(8,322)	-	-	-	-	(8,322)
Total transactions with owners	-	(8,322)	-	-	-	-	(8,322)
At 31 December 2022	5,010	108,674	29,540	7,076	15,113	257,521	422,934

\* Represent amounts less than RMB1,000.

	<u>Reserves</u>						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 2023	<u>5,010</u>	<u>108,674</u>	<u>29,540</u>	<u>7,076</u>	<u>15,113</u>	<u>257,521</u>	<u>422,934</u>
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,795</u>	<u>48,795</u>
<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	-	-	-	1,194	-	-	1,194
<i>Item that may be reclassified subsequently to profit or loss</i>							
Exchange differences on consolidation	<u>-</u>	<u>-</u>	<u>-</u>	<u>(34)</u>	<u>-</u>	<u>-</u>	<u>(34)</u>
Other comprehensive income for the year, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,160</u>	<u>-</u>	<u>-</u>	<u>1,160</u>
<b>Total comprehensive income for the year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,160</u>	<u>-</u>	<u>48,795</u>	<u>49,955</u>
At 31 December 2023	<u><u>5,010</u></u>	<u><u>108,674</u></u>	<u><u>29,540</u></u>	<u><u>8,236</u></u>	<u><u>15,113</u></u>	<u><u>306,316</u></u>	<u><u>472,889</u></u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2023

## 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 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong to 2404, 24th Floor, World-Wide House, 19 Des Voeux Road Central Central, Hong Kong. The Group’s headquarter is situated at No. 88 Jinwei Road, Chengde City, Hebei Province, the People’s Republic of China (the “**PRC**”).

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

The immediate and ultimate holding company of the Company is Modern Biotechnology Group Holdings Co., Ltd. (“**Modern Biotechnology**”), which is incorporated in the British Virgin Islands (the “**BVI**”). As 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 further detailed in the Company’s announcement dated 18 July 2023, Ms. Sun Xinlei (“**Ms. Sun**”), the widow of Mr. Xie, completed the inheritance of all the issued shares of Modern Biotechnology and has been the Ultimate Controlling Party with effect from 4 July 2023.

## 2. MATERIAL 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 2022 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

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

Amendments to HKAS 1	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform— Pillar Two Model Rules

### *Amendments to HKAS 1: Disclosure of Accounting Policies*

The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies.

The amendments have no effect on the measurement, recognition or presentation of any items in the consolidated financial statements. Management has reviewed the disclosure of accounting policy information and considered it is consistent with the amendments.

### *Amendments to HKAS 8: Definition of Accounting Estimates*

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.

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

### *Amendments to HKAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of HKAS 12 so that it no longer applies to transactions that, on recognition, give rise to equal taxable and deductible temporary differences.

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

### *Amendments to HKAS 12: International Tax Reform— Pillar Two Model Rules*

The amendments provide entities with temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's Pillar Two model rules. The Amendments also introduce targeted disclosure requirements to help investors understand an entity's exposure to income taxes arising from the rules.

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

**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 authorisation of these 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	Classification of Liabilities as Current or Non-current <sup>1</sup>
Amendments to HKAS 1	Non-current Liabilities with Covenants <sup>1</sup>
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements <sup>1</sup>
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback <sup>1</sup>
Amendments to HKAS 21	Lack of Exchangeability <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 2024

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2025

<sup>3</sup> The effective date to be determined

The management of the Company do not anticipate that the adoption of these 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 2023 and 2022.

### 4. REVENUE

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue from contracts with customers within HKFRS 15		
<i>At a point in time</i>		
– Production of PCM	<u>344,075</u>	<u>399,656</u>

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest income	906	675
Government grants received ( <i>Note</i> )	–	62
Exchange loss, net	(1,234)	(5,913)
Sundry income	272	419
	<u>56</u>	<u>(4,757)</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):

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
<b>Finance costs</b>		
Interest on lease liabilities	<u>5</u>	<u>14</u>
<b>Staff costs (including directors' emoluments)</b>		
Salaries, allowances, discretionary bonus, and other benefits in kind	14,037	15,568
Contributions to defined contribution plans	<u>3,025</u>	<u>2,896</u>
	<u>17,062</u>	<u>18,464</u>
<b>Other items</b>		
Auditor's remuneration	1,350	1,288
Cost of inventories ( <i>Note</i> )	239,900	228,870
Depreciation of right-of-use assets (charged to "administrative and other operating expenses")	347	480
Depreciation of property, plant and equipment (charged to "cost of sales" and "administrative and other operating expenses", as appropriate)	5,996	5,114
Amortisation of intangible assets (charged to "administrative and other operating expenses")	97	97
Expenses recognised under short-term leases	247	92
Provision for loss allowance for trade receivables, net	126	33
Advertising and promotion expenses (charged to "selling and distribution expenses")	15,908	15,908
Research and development expenses	<u>1,500</u>	<u>3,000</u>

*Note:* Cost of inventories included approximately RMB11,635,000 and RMB5,954,000 (2022: RMB12,850,000 and RMB5,073,000) relating to staff costs and depreciation, respectively, which were included in the respective amounts as disclosed above for the year ended 31 December 2023.

## 7. INCOME TAX EXPENSES

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
<b>Current tax</b>		
PRC enterprise income tax (“PRC EIT”)	<u>13,404</u>	<u>34,790</u>
<b>Deferred tax</b>		
Origination and changes in temporary differences	<u>6,107</u>	<u>1,705</u>
<b>Total income tax expenses for the year</b>	<u><u>19,511</u></u>	<u><u>36,495</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 2023 and 2022.

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 2023 and 2022.

## 8. EARNINGS PER SHARE

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Profit for the year attributable to owners of the Company, used in basic and diluted earnings per share calculation	<u>48,795</u>	<u>87,829</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>600,000</u>

The calculation of basic earnings per share is based on the profit attributable to owners of the Company and the weighted average number of ordinary shares in issue during the 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 2023 and 2022.

## 9. DIVIDENDS

- (a) The Board does not recommend the payment of a final dividend for the years ended 31 December 2023 and 2022.
- (b) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the year:

	<b>2023</b> <i>RMB'000</i>	2022 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$Nil (2022: HK\$0.0167) per ordinary share	<u>          -</u>	<u>          8,322</u>

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

	<b>2023</b> <i>RMB'000</i>	2022 <i>RMB'000</i>
Deposit paid	<u>          -</u>	<u>          9,435</u>

At 31 December 2022, full proceeds of approximately RMB9,435,000 have been paid by the Group to a supplier for purchasing plant and machinery (the “**Plant and Machinery**”). During the year ended 31 December 2023, the Plant and Machinery has been delivered to the Group and ready for commercial operation, and therefore the deposit paid has been reclassified to property, plant and equipment and value-added tax payable respectively.

## 11. TRADE AND OTHER RECEIVABLES

	<i>Note</i>	<b>2023</b> <i>RMB'000</i>	2022 <i>RMB'000</i>
<b>Trade receivables</b>			
From third parties		<b>103,603</b>	78,479
Less: Loss allowances		<u>(518)</u>	<u>(392)</u>
	<i>11(a)</i>	<u><b>103,085</b></u>	<u>78,087</u>
<b>Other receivables</b>			
Prepayments		<b>361</b>	354
Other deposits and receivables		<u>335</u>	<u>284</u>
		<u><b>696</b></u>	<u>638</u>
		<u><b>103,781</b></u>	<u>78,725</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>2023</b> <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 30 days	<b>38,038</b>	42,171
31 to 60 days	<b>32,987</b>	35,916
61 to 90 days	<u>32,060</u>	<u>–</u>
	<u><b>103,085</b></u>	<u>78,087</u>

The Group normally grants credit terms up to 90 days (2022: 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>2023</b> <i>RMB'000</i>	2022 <i>RMB'000</i>
Not yet past due	<u><b>103,085</b></u>	<u>78,087</u>

## 12. TRADE AND OTHER PAYABLES

	<i>Note</i>	<b>2023</b> <b>RMB'000</b>	2022 <i>RMB'000</i>
<b>Trade payables</b>			
To third parties	<i>12(a)</i>	<u>31,278</u>	<u>39,261</u>
<b>Other payables</b>			
Monetary marketing incentives payables ( <i>Note i</i> )		7,499	8,779
Value-added tax and other tax payables		2,776	3,168
Salary payables		2,237	2,165
Accruals and other payables		<u>5,102</u>	<u>11,244</u>
		<u>17,524</u>	<u>25,356</u>
		<u><b>48,802</b></u>	<u>64,617</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>2023</b> <b>RMB'000</b>	2022 <i>RMB'000</i>
Within 30 days	31,210	39,261
31 to 60 days	<u>68</u>	<u>–</u>
	<u><b>31,278</b></u>	<u>39,261</u>

### 13. SHARE CAPITAL

	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 2022, 31 December 2022, 1 January 2023 and 31 December 2023	<u>10,000,000</u>	<u>100,000</u>	<u>84,349</u>
<b>Issued and fully paid:</b>			
At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	<u>600,000</u>	<u>6,000</u>	<u>5,010</u>

### 14. RELATED PARTY INFORMATION

In addition to the transactions/information disclosed elsewhere in the consolidated financial statements, during the years ended 31 December 2023 and 2022, 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:

	2023 RMB'000	2022 RMB'000
Salaries, housing allowances, other allowances, discretionary bonus, and other benefits in kind	2,010	2,108
Contributions to defined contribution plans	<u>186</u>	<u>101</u>
	<u>2,196</u>	<u>2,209</u>

### 15. COMMITMENTS

#### Capital expenditure commitments

	2023 RMB\$'000	2022 RMB\$'000
Contracted but not provided net of deposit paid for construction of property, plants and equipment	<u>120,638</u>	<u>–</u>

At the end of the reporting period, the Group had commitment of approximately RMB120,638,000 regarding the construction agreement dated 3 November 2023 entered into between the Chengde Yushi and National Power Runke Engineering (Beijing) Company Limited\* (國電潤科電力設備工程北京股份有限公司), a company incorporated in the PRC with limited liability (“**NPR Engineering**”) in relation to the water supply and electrical engineering services for the expansion of Chengde Yushi’s pharmaceutical manufacturing building (“**Engineering Contract**”) with NPR Engineering, pursuant to which NPR Engineering agreed to provide water supply and electrical engineering services for the renovation of Chengde Yushi’s pharmaceutical manufacturing building with gross area of approximately 3,500m<sup>2</sup> at the total consideration of approximately RMB120,638,000 located at Longhua County, Chengde City, Hebei Province, the PRC.

\* English name for identification purpose

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY OVERVIEW

Notwithstanding that the COVID-19 pandemic (the “**Pandemic**”) has come to an end, industries in the Mainland China have been confronting economic downturn pressure and intricate international situations and as such, the State has continued to put in place different policies to promote high-quality development and persist in seeking progress while maintaining stability. In this regard, the pharmaceuticals industry is faced with new challenges. In view of the rising attention to health management alongside the continuous progress of science and technology, the State further promoted the standardization of the industry by issuing multiple policies at different levels, so as to facilitating the high-quality development of the pharmaceuticals industry. Such policies include promoting multi-level medical security, consummating public health system, carrying forward health knowledge publicity, and comprehensively regulating the behaviors and supervision system with respect to the purchase, storage, transportation and use of drugs by domestic pharmaceutical wholesales and retailers, pharmaceutical marketing authorization holders and medical institutions. In addition, standardized guidance has also been provided on pharmaceutical packaging, clinical medication management, pharmaceutical sales management and other aspects.

In spite of the challenges, the industry as a whole has maintained a growth trend. The pharmaceutical industry continues to serve as the pillar industry of the domestic economy, which is directly related to people’s lives, health and quality of life, and has a significant impact on the economic society. According to the the China Pharmaceutical Industry Development Conference held in October 2023, the average annual growth rate of the revenue from the primary business of the pharmaceutical industry and the average annual growth rate of the total profits in 2023 amounted to 9.3% and 11.3% respectively, indicating a more solid foundation for development.

In summary, despite various uncertainties and challenges, China’s pharmaceutical industry has maintained a growth momentum in general. New business models have continued to emerge, and public awareness of self-care has been continuously enhanced after the Pandemic. Besides, the government’s support for the industry has been consistently strengthened, providing a solid foundation for the industry’s future development.

## BUSINESS REVIEW

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 Group's major products include Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸), Cardiogenic Enhancement Capsule (山玫膠囊), Kidney Invigoration Pill (金匱腎氣丸), Heart Wellness Capsule (心安膠囊), Menstrual Discomfort Relief Pill (加味逍遙丸), Liver Detox Tablet (護肝片), Additional Ingredient Huoxiang Zheng Qi 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 the Northeast region of the PRC. Generally, the intended therapeutic effects of the Group's major products are for the treatment and/or alleviation of (i) Qi (氣) – deficiency and blood-stasis condition; (ii) cardio-cerebrovascular condition; (iii) digestive and gastrointestinal condition; and (iv) gynaecological condition. Some of the Group's major products are believed to be having the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illnesses.

The Group has currently established a distribution network of 88 distributors covering about 40 cities in the PRC, which are in turn served and administered by over 37 marketing staff members with relevant experience in the 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, the distribution network would not only help to develop the business operations geographically from the Northeast and Southern regions of the PRC to other areas in the PRC, but also allow the Group to penetrate in reasonably extensive width and breadth both in Northeast and Southern regions of 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 2023, the revenue contribution from Northeast region, Northern region and Southern region of the PRC amounted to approximately RMB188.2 million, RMB57.2 million and RMB56.3 million, respectively (2022: approximately RMB219.9 million, RMB67.0 million and RMB65.1 million).

During the Year, for the purpose of meeting the new requirements for renewal of the Group's certificate of good manufacturing practice that, among the others, the cleanliness of pharmaceutical factory production areas must reach D grade, the Group entered into an engineering contract with National Power Runke Engineering (Beijing) Company Limited\* (國電潤科電力設備工程北京股份有限公司) for the renovation of the Group's pharmaceutical manufacturing building located at Longhua County, Chengde City, Hebei Province, PRC. For details, please refer to the circular of the Company dated 29 December 2023. Taking into consideration the severe weather in the Hebei Province in December 2023, it is expected that the renovation will be completed in June 2024. Upon completion of the renovation, the Group's production will become more efficiency and the renovation work will allow the Group to manufacture better quality of products.

## USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

During the Year 2023, 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**”). As at the date of this announcement, there had been no 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 (“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 use of the Net Proceeds up to 31 December 2023:

Business Strategies	Planned use of Net Proceeds from Global Offering in total		Actual use of Net Proceeds up to 31 December 2022	Amount utilised during the year ended 31 December 2023	Unutilised amount as at 31 December 2023	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	51.7	45.3	51.7	-	-	Not applicable
• Broadening the distribution network in Southern region and Eastern region of the PRC <sup>(2)</sup>	19.7	17.3	1.6	-	18.1	By the end of 2024
• 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 <sup>(3)</sup>	23.4	20.5	9.4	5.1	8.9	By the end of 2024
• Upgrading the IT system <sup>(4)</sup>	4.0	3.5	-	0.6	3.4	By the end of 2024
• Increasing general working capital	3.3	2.9	3.3	-	-	Not applicable
<b>Total</b>	<b>114.1</b>	<b>100.0</b>	<b>78.0</b>	<b>5.7</b>	<b>30.4</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 is based on the best estimation of future market conditions made by the Group and subject to changes in accordance with our actual business operation. If there is any change in the use of proceeds, the Company will publish a separate announcement accordingly.
- (2) The expansion of distribution network in Northern and Eastern regions of the PRC was originally scheduled to commence in the second quarter of 2023. However, the economic environment was not as expected due to the impact of both COVID-19 pandemic and the change in government policy. The relevant sales team will be gradually formed by the end of 2024.
- (3) The Group expects to complete the recruitment of professional traditional medicine research and development personnel by the end of 2024.
- (4) The hardware facilities are under construction in 2024, and the Group is still in the course of seeking a suitable consulting company for the development of the IT system.

## FINANCIAL REVIEW

The Group recorded revenue of approximately RMB344.1 million for the Year 2023, representing a decrease of approximately RMB55.6 million or 13.9% as compared to the Year 2022. The decrease in revenue was primarily driven by the decrease in the number of orders from distributors due to the change in government policies.

Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸) and Shan Mei Jiao Nang (山玫膠囊) were the three top selling products for the Year 2023. These three products contributed approximately 29.5% (2022: 28.7%), 15.3% (2022: 15.0%) and 10.1% (2022: 10.0%) of the Group's total revenue for the Year 2023, respectively.

Breakdown of the Group's revenue by geographic location is as follows:

	For the year ended 31 December			
	2023		2022	
	<i>RMB'000</i>	<i>Approximate % of total revenue</i>	<i>RMB'000</i>	<i>Approximate % of total revenue</i>
Northeast region <i>(Note (i))</i>	<b>188,213</b>	<b>54.7</b>	219,877	55.0
Eastern region <i>(Note (ii))</i>	<b>29,384</b>	<b>8.5</b>	31,948	8.0
Southern region <i>(Note (iii))</i>	<b>56,326</b>	<b>16.4</b>	65,108	16.3
Northern region <i>(Note (iv))</i>	<b>57,194</b>	<b>16.6</b>	67,006	16.8
Southwest region <i>(Note (v))</i>	<b>7,296</b>	<b>2.1</b>	9,179	2.3
Northwest region <i>(Note (vi))</i>	<b>5,662</b>	<b>1.7</b>	6,538	1.6
Total	<b><u>344,075</u></b>	<b><u>100</u></b>	<b><u>399,656</u></b>	<b><u>100.0</u></b>

*Notes:*

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

Northeast region remained the largest contributor to the Group's total revenue for the Year 2023. It contributed 54.7% and 55.0% of the total revenue of the Group for the Year 2023 and the Year 2022, respectively. The decrease in total revenue of the Group by approximately 13.9% for the Year 2023 as compared to that of the Year 2022 was mainly due to the decline in sales in Northeast, Northern and Southern regions by approximately RMB31.7 million, RMB9.8 million and approximately RMB8.8 million, respectively.

The overall gross profit margin for the Year 2023 decreased to approximately 30.3% as compared to approximately 42.7% for the Year 2022. It was mainly due to the increased purchase prices.

## **OPERATING COSTS AND EXPENSES**

For the Year 2023, selling and distribution expenses of the Group decreased by approximately 4.0% from approximately RMB25.4 million for the Year 2022 to approximately RMB24.4 million for the Year 2023. The expenses of the advertising production company remained unchanged from the year 2022, thus the decrease was mainly due to the decrease in freight charges by approximately RMB1.2 million during the Year 2023.

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 30.1% in the administrative and other operating expenses for the Year 2023 to approximately RMB11.4 million for the Year 2023 in comparison with those of the Year 2022 amounting to approximately RMB16.3 million. This was mainly due to the decrease of approximately RMB1.5 million in research and development expenses and the decrease of approximately RMB2.0 million in employee benefit expenses during the Year 2023.

Finance costs decreased by approximately RMB9,000 for the Year 2023. Such decrease was primarily due to the full repayment of certain interest-bearing borrowings during the Year 2023.

## **OPERATING RESULTS**

Profit before tax decreased by approximately 45.1% from approximately RMB124.3 million for the Year 2022 to approximately RMB68.3 million for the Year 2023. This was mainly due to the decrease in the number of orders from distributors due to the change in government policies; and the increase in procurement costs.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2023, total assets held by the Group was approximately RMB528.5 million (31 December 2022: approximately RMB501.5 million), including bank balances and cash of approximately RMB286.3 million (31 December 2022: approximately RMB282.3 million).

As at 31 December 2023, the Group had total liabilities of approximately RMB55.6 million (31 December 2022: approximately RMB78.6 million) which comprise mainly of trade and other payables amounting to approximately RMB48.8 million (31 December 2022: approximately RMB64.6 million).

As at 31 December 2023, the gearing ratio, expressed as a percentage of total borrowings over total equity, was about 0.02% (31 December 2022: approximately 0.09%). This reduction resulted from the full repayment of certain interest-bearing borrowings during the Year 2023.

## **CONTINGENT LIABILITIES**

As at 31 December 2023, the Group had no material contingent liabilities (31 December 2022: Nil).

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

The majority of the Group's business 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 2023, the Group did not have any charge on its assets (31 December 2022: Nil).

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2023, the Group had 191 employees (31 December 2022: 194). The total staff costs including directors' remuneration for the Year 2023 were approximately RMB17.1 million (Year 2022: approximately RMB18.5 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 2023.

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries, associated companies and joint ventures as at 31 December 2023.

## **CAPITAL EXPENDITURE**

For the Year 2023, the Group spent approximately RMB5.1 million (Year 2022: approximately RMB11.7 million) on capital expenditure, which was primarily related to the acquisition of property, plant and machinery.

## **DIVIDEND**

The Board has resolved not to recommend the payment of a final dividend for the Year 2023 (2022: nil).

## **OTHER INFORMATION**

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

During the Year 2023, 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 C1 (formerly 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 2023, 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 until 3 November 2023. The duties and responsibilities of chairman of the Board before 3 November 2023 had been shared among other members of the Board and senior management, including Ms. Zhang Hongli, our executive Director and Chief Executive Officer. Ms. Sun has been appointed as an executive Director and the chairman of the Board with effect from 3 November 2023 and as such, the Company has complied with all code provisions as set out in the CG Code since 3 November 2023 and, where appropriate, the applicable recommended best practices of the CG Code.

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 C3 (formerly 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 2023.

## CONTRACTUAL ARRANGEMENTS

The Board had been informed by Ms. Sun, the widow of Mr. Xie, that she completed the inheritance of all the issued shares of Modern Biotechnology on 4 July 2023 (the “**Inheritance**”). Following Ms. Sun became the registered shareholder of Chengde Yushi Jindan Pharmaceutical Co. Ltd. (“**Chengde Yushi**”) in December 2021 and also completed the Inheritance in early July 2023, the Group executed new contractual arrangements substantially on the same terms as the previous contractual arrangements, save that (a) the identity of the sole registered shareholder of Chengde Yushi has been changed from Mr. Xie to Ms. Sun; and (b) Ms. Sun has executed the no spouse undertaking as a replacement to the spouse’s undertaking. For details, please refer to the Company’s announcements dated 14 June 2023 and 18 July 2023.

## CONSTITUTIONAL DOCUMENT

On 13 April 2023, the Board proposed to amend the Company’s memorandum and articles of association (the “**M&A**”) in order to, inter alia, (i) conform with the core shareholder protection standards set out in the then Appendix 3 (now Appendix A1) to the Listing Rules; (ii) bring the M&A in line with the latest legal and regulatory requirements under the applicable laws of the Cayman Islands and the Listing Rules; and (iii) incorporate certain consequential, tidy-up and housekeeping amendment. Details of the amendments are set out in the circular of the Company dated 27 April 2023.

The second amended and restated M&A were adopted by a special resolution passed at the annual general meeting of the Company held on 28 May 2023. An up-to-date version of the second amended and restated M&A is available on the respective websites of the Stock Exchange and the Company.

Saved as disclosed above, no other changes were made to the constitutional documents of the Company for the Year 2023.

## AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Company has established its audit committee (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. Wong Chi Kin. 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 2023.

## **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 2023 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 2023. 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, 22 March 2024

*As at the date of this announcement, the Board comprises three executive Directors, namely Ms. Sun Xinlei, Ms. Zhang Hongli and Ms. Jia Yanru; and three independent non-executive Directors, namely Ms. Liu Ling, Mr. Leung Tsz Wing and Mr. Wong Chi Kin.*