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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 2024

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 2024 (the “**Year 2024**”), together with the comparative figures for the year ended 31 December 2023 (the “**Year 2023**”) as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the year ended 31 December	
	<i>Notes</i>	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Revenue	4	214,068	344,075
Cost of sales		(158,871)	(239,900)
Gross profit		55,197	104,175
Other income, gains and losses, net	5	(9,009)	(56)
Selling and distribution expenses		(22,281)	(24,378)
Administrative and other operating expenses		(9,087)	(11,430)
Finance costs	6	(1)	(5)
Profit before tax	6	14,819	68,306
Income tax expenses	7	(5,149)	(19,511)
Profit for the year		9,670	48,795
Other comprehensive income (loss):			
<i>Item that will not be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of the Company's financial statements from functional currency to presentation currency		1,688	1,194
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences on consolidation		(22)	(34)
Total other comprehensive income for the year, net of tax		1,666	1,160
Total comprehensive income for the year		11,336	49,955
Earnings per share attributable to owners of the Company			
		<i>RMB cents</i>	<i>RMB cents</i>
Basic and diluted	8	1.61	8.13

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December	
		2024	2023
	Notes	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		184,983	85,904
Intangible assets		97	195
Right-of-use assets		1,885	1,807
Deferred tax assets		837	4,113
		<u>187,802</u>	<u>92,019</u>
Current assets			
Inventories		30,549	46,466
Income tax recoverable		1,003	–
Trade and other receivables	10	89,336	103,781
Restricted bank balance		1,950	–
Bank balances and cash		229,668	286,266
		<u>352,506</u>	<u>436,513</u>
Current liabilities			
Trade and other payables	11	48,894	48,802
Lease liabilities		66	72
Income tax payables		–	14
		<u>48,960</u>	<u>48,888</u>
Net current assets		<u>303,546</u>	<u>387,625</u>
Total assets less current liabilities		<u>491,348</u>	<u>479,644</u>
Non-current liabilities			
Lease liabilities		69	–
Deferred tax liabilities		7,054	6,755
		<u>7,123</u>	<u>6,755</u>
NET ASSETS		<u><u>484,225</u></u>	<u><u>472,889</u></u>
Capital and reserves			
Share capital	12	5,010	5,010
Reserves		479,215	467,879
TOTAL EQUITY		<u><u>484,225</u></u>	<u><u>472,889</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital RMB'000 (Note 12)	Reserves				Accumulated profits RMB'000	Total RMB'000
		Share premium RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Statutory reserve RMB'000		
At 1 January 2024	5,010	108,674	29,540	8,236	15,113	306,316	472,889
Profit for the year	-	-	-	-	-	9,670	9,670
Other comprehensive income (loss):							
<i>Item that will not be reclassified subsequently to profit or loss</i>							
Exchange differences on translation of the Company's financial statements from functional currency to presentation currency	-	-	-	1,688	-	-	1,688
<i>Item that may be reclassified subsequently to profit or loss</i>							
Exchange differences on consolidation	-	-	-	(22)	-	-	(22)
Total other comprehensive income for the year, net of tax	-	-	-	1,666	-	-	1,666
Total comprehensive income for the year	-	-	-	1,666	-	9,670	11,336
At 31 December 2024	5,010	108,674	29,540	9,902	15,113	315,986	484,225

	Reserves						Total RMB'000
	Share capital RMB'000 (Note 12)	Share premium RMB'000	Capital reserve RMB'000	Translation reserve RMB'000	Statutory reserve RMB'000	Accumulated profits RMB'000	
At 1 January 2023	5,010	108,674	29,540	7,076	15,113	257,521	422,934
Profit for the year	-	-	-	-	-	48,795	48,795
Other comprehensive income (loss):							
<i>Item that will not be reclassified subsequently to profit or loss</i>							
Exchange differences on translation of the Company's financial statements 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	-	-	-	(34)	-	-	(34)
Total other comprehensive income for the year, net of tax	-	-	-	1,160	-	-	1,160
Total comprehensive income for the year	-	-	-	1,160	-	48,795	49,955
At 31 December 2023	5,010	108,674	29,540	8,236	15,113	306,316	472,889

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2024

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 have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since 15 January 2021 (the “**Listing**”). The address of the Company’s registered office is 89 Nexus Way, Camana Bay, Grand Cayman, KY1 – 9009, Cayman Islands. The principal place of business in Hong Kong of the Company is 2404, 24th Floor, World-Wide House, 19 Des Voeus 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 (孫新磊) (“**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 (the “**HKICPA**”) and accounting principles generally accepted in Hong Kong.

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

The 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 2023 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	Classification of Liabilities as Current or Non-current
Amendments to HKAS 1	Non-current Liabilities with Covenants

Amendments to HKAS 1: Classification of Liabilities as Current or Non-current

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

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

Amendments to HKAS 1: Non-current Liabilities with Covenants

The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the consolidated financial statements.

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 investment 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 this announcement, 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 21	Lack of Exchangeability ¹
Amendments to HKFRS 9 and HKFRS 7	Amendments to the Classification and Measurement of Financial Instruments ²
Annual Improvements to HKFRSs	Volume 11 ²
Amendments to HKFRS 9 and HKFRS 7	Contracts Referencing Nature dependent Electricity ²
HKFRS 18	Presentation and Disclosure in Financial Statements ³
HKFRS 19	Subsidiaries without Public Accountability Disclosure ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴

¹ Effective for annual periods beginning on or after 1 January 2025

² Effective for annual periods beginning on or after 1 January 2026

³ Effective for annual periods beginning on or after 1 January 2027

⁴ 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 position or performance.

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 located in 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 years ended 31 December 2024 and 2023.

4. REVENUE

	2024	2023
	<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>214,068</u>	<u>344,075</u>

5. OTHER INCOME, GAINS AND LOSSES, NET

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Interest income	766	906
Exchange loss, net	(1,260)	(1,234)
Loss on disposal of property, plant and equipment (<i>Note</i>)	(8,589)	–
Reversal of loss allowances on trade receivables, net	73	–
Sundry income	<u>1</u>	<u>272</u>
	<u><u>(9,009)</u></u>	<u><u>(56)</u></u>

Note: The loss on disposal of property, plant and equipment was resulted from the demolition of a preparation workshop.

6. PROFIT BEFORE TAX

This is stated after charging (crediting):

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Finance costs		
Interest on lease liabilities	<u>1</u>	<u>5</u>
Staff costs (including directors' emoluments)		
Salaries, allowances, discretionary bonus, and other benefits in kind	11,449	14,037
Contributions to defined contribution plans	<u>4,009</u>	<u>3,025</u>
	<u><u>15,458</u></u>	<u><u>17,062</u></u>
Other items		
Auditor's remuneration	1,322	1,350
Cost of inventories (<i>Note</i>)	158,871	239,900
Depreciation of right-of-use assets (charged to "administrative and other operating expenses")	128	347
Depreciation of property, plant and equipment (charged to "cost of sales" and "administrative and other operating expenses", as appropriate)	9,048	5,996
Amortisation of intangible assets (charged to "administrative and other operating expenses")	98	97
Expenses recognised under short-term leases	180	247
(Reversal of) Provision for loss allowances on trade receivables, net	(73)	126
Advertising and promotion expenses (charged to "selling and distribution expenses")	15,908	15,908
Research and development ("R&D") expenses (charged to "administrative and other operating expenses")	<u>1,500</u>	<u>1,500</u>

Note: Cost of inventories included approximately RMB12,177,000 and RMB8,722,000 (2023: approximately RMB11,635,000 and RMB5,954,000) relating to staff costs and depreciation, respectively, which were included in the respective amounts as disclosed above for the year ended 31 December 2024.

7. INCOME TAX EXPENSES

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Current tax		
PRC enterprise income tax (“PRC EIT”)	<u>1,574</u>	<u>13,404</u>
Deferred tax		
Origination and changes in temporary differences	<u>3,575</u>	<u>6,107</u>
Total income tax expenses for the year	<u><u>5,149</u></u>	<u><u>19,511</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 2024 and 2023.

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 2024 and 2023.

8. EARNINGS PER SHARE

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

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Profit for the year attributable to owners of the Company, used in basic and diluted earnings per share calculation	<u>9,670</u>	<u>48,795</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 2024 and 2023.

9. DIVIDENDS

The Board does not recommend the payment of a final dividend for the years ended 31 December 2024 and 2023.

10. TRADE AND OTHER RECEIVABLES

	<i>Notes</i>	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Trade receivables			
From third parties		88,928	103,603
Less: Loss allowances		<u>(445)</u>	<u>(518)</u>
	<i>10(a)</i>	<u>88,483</u>	<u>103,085</u>
Other receivables			
Prepayments		450	361
Other deposits and receivables		<u>403</u>	<u>335</u>
		<u>853</u>	<u>696</u>
		<u>89,336</u>	<u>103,781</u>

10(a) Trade receivables

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

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Within 30 days	29,963	38,038
31 to 60 days	29,823	32,987
61 to 90 days	<u>28,697</u>	<u>32,060</u>
	<u>88,483</u>	<u>103,085</u>

The Group normally grants credit terms up to 90 days (2023: 90 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:

	2024 <i>RMB'000</i>	2023 <i>RMB'000</i>
Not yet past due	<u>88,483</u>	<u>103,085</u>

11. TRADE AND OTHER PAYABLES

	<i>Note</i>	2024 RMB'000	2023 <i>RMB'000</i>
Trade payables			
To third parties	<i>11(a)</i>	<u>32,577</u>	<u>31,278</u>
Other payables			
Monetary marketing incentives payables (<i>Note i</i>)		7,505	7,499
Value-added tax and other tax payables		1,892	2,776
Salary payables		1,468	2,237
Accruals and other payables		<u>5,452</u>	<u>5,012</u>
		<u>16,317</u>	<u>17,524</u>
		<u>48,894</u>	<u>48,802</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.

11(a) Trade payables

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

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

	2024 RMB'000	2023 <i>RMB'000</i>
Within 30 days	32,577	31,210
31 to 60 days	<u>—</u>	<u>68</u>
	<u>32,577</u>	<u>31,278</u>

12. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000	Equivalent to RMB RMB'000
Ordinary share of HK\$0.01 each			
Authorised:			
At 1 January 2023, 31 December 2023, 1 January 2024 and 31 December 2024	<u>10,000,000</u>	<u>100,000</u>	<u>84,349</u>
Issued and fully paid:			
At 1 January 2023, 31 December 2023, 1 January 2024 and 31 December 2024	<u>600,000</u>	<u>6,000</u>	<u>5,010</u>

13. RELATED PARTY INFORMATION

Related party transactions

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

	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, housing allowances, other allowances, discretionary bonus, and other benefits in kind	1,617	2,010
Contributions to defined contribution plans	141	186
	<u>1,758</u>	<u>2,196</u>

14. COMMITMENTS

Capital expenditure commitments

	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided net of deposit paid for construction of property, plant and equipment	<u>-</u>	<u>120,638</u>

At 31 December 2023, 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 3,500m² at the total consideration of approximately RMB120,638,000 located at Longhua County, Chengde City, Hebei Province, the PRC. The renovation works was completed in 2024. All the related capital expenditure, after deducting the PRC taxes, has been recorded in property, plant and equipment in current year.

* *English name for identification purpose*

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

As the State continued to put in place a diverse array of policies and promote high-quality development in 2024, the Chinese PCM market maintained a stable growth in 2024. 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 facilitate the high-quality development of the pharmaceuticals industry. Such policies encompass the promotion of multi-tiered medical security, the consummation of the public health system, the publicity of health knowledge, and the comprehensive regulation of the behaviors and supervisory systems with respect to the purchase, storage, transportation and use of drugs by domestic pharmaceutical wholesalers and retailers, pharmaceutical marketing authorisation holders and medical institutions. In addition, standardised guidance has also been provided on pharmaceutical packaging, clinical medication management, pharmaceutical sales management and other aspects.

The industry as a whole has maintained a growth trend. The pharmaceutical industry continues to serve as the pillar industry of the national economy, which not only directly underpins the health and quality of life of the populace but also profoundly influences the economic society. The ever-growing aspirations of end-consumers for superior quality remain unabated. According to the press conference of 2024 China Pharmaceutical Industry Development Conference held in November 2024, the innovation ability of the pharmaceutical industry has been significantly improved, and there has been an increase both in “quantity” and “quality” of innovative drugs in the pharmaceutical industry since the “14th Five-Year Plan”, with its market scale reaching RMB100 billion, which demonstrates a promising prospect.

In summary, the industry as a whole has maintained a growth momentum over the past year. New business models have continued to emerge, and the public’s awareness regarding self-care has been continuously enhanced. Besides, the government’s support for the industry has consistently intensified, laying 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. During the Year 2024, the Group had about 60 types of PCM products, the major products of which include Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸), Cardiotonic Enhancement Capsule (山玫膠囊), Kidney Invigoration Pill (金匱腎氣丸), Heart Wellness Capsule (心安膠囊), Menstrual Discomfort Relief Pill (加味逍遙丸), Liver Detox Tablet (護肝片), Additional Ingredient Huoxiang 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 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 105 distributors covering about 53 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, which the Group is strategically targeting at in view of the Group's established footprint and the large population there. For the Year 2024, the revenue contribution from Northeast region, Northern region and Southern region of the PRC amounted to approximately RMB114.9 million, RMB35.5 million and RMB35.4 million, respectively (2023: approximately RMB188.2 million, RMB57.2 million and RMB56.3 million).

In the Year 2024, due to the renovation work on a preparation workshop of the Group, production of PCM was temporarily suspended during the period from February to May. The renovation work was completed in June 2024 and the Group has resumed its production thereafter.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

During the Year 2024, 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 “**Net Proceeds**”). The table below sets out the planned allocations of the Net Proceeds and actual use of the Net Proceeds up to 31 December 2024:

Business Strategies	Planned use of Net Proceeds from Global Offering in total		Actual use of Net Proceeds up to 31 December 2023	Amount utilised during the year ended 31 December 2024	Unutilised amount as at 31 December 2024	Expected timeline for the utilisation of the remaining balance ⁽¹⁾
	(HK\$'million)	%	(HK\$'million)	(HK\$'million)	(HK\$'million)	
• Enhancing and expanding the production capacity to further produce the major prescribed medicine, in particular the major capsule products with the intended effect of treating/alleviating cardio-cerebrovascular (心腦血管) condition	51.7	45.3	51.7	–	–	Not applicable
• Broadening the distribution network in Southern region and Eastern region of the PRC ⁽²⁾	19.7	17.3	1.6	0.6	17.5	By the end of 2025
• Raising the brand awareness through media marketing and promotion efforts	12.0	10.5	12.0	–	–	Not applicable
• Further raising the R&D efforts, procuring quality management equipment and broadening the product portfolio ⁽³⁾	23.4	20.5	14.5	2.7	6.2	By the end of 2025
• Upgrading the IT system ⁽⁴⁾	4.0	3.5	0.6	–	3.4	By the end of 2025
• Increasing general working capital	3.3	2.9	3.3	–	–	Not applicable
• Total	<u>114.1</u>	<u>100.0</u>	<u>83.7</u>	<u>3.3</u>	<u>27.1</u>	

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 original plan was to gradually establish the sales team and expand the distribution network in Northern and Eastern regions of the PRC by the end of 2024. However, the economic environment in 2024 was not as expected due to change in the market environment and the change in government policy. The Group adopted a more prudent approach and postponed the establishment of the relevant sales team. The Company will reassess the appropriate timing for such establishment by the end of 2025.
- (3) Due to the unfavorable economic condition, the Company has adopted a more prudent approach. The Group expects to complete the recruitment of professional traditional medicine research and development personnel by the end of 2025.
- (4) Due to the unfavorable economic condition, the Company has adopted a more prudent approach. The hardware facilities are currently under construction, 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 RMB214.1 million for the Year 2024, representing a decrease of approximately RMB130 million or 37.8% as compared to the Year 2023. The decrease in revenue was primarily attributable to the temporary suspension of production due to the renovation work on a preparation workshop.

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 2024, accounted for approximately 27.6% (2023: 29.5%), 16.3% (2023: 15.3%) and 10.7% (2023: 9.7%) of the Group's total revenue for the Year 2024, respectively.

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

	For the year ended 31 December			
	2024		2023	
	<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>	114,859	53.7	188,213	54.7
Eastern region <i>(Note (ii))</i>	18,326	8.5	29,384	8.5
Southern region <i>(Note (iii))</i>	35,373	16.5	56,326	16.4
Northern region <i>(Note (iv))</i>	35,463	16.6	57,194	16.6
Southwest region <i>(Note (v))</i>	6,137	2.9	7,296	2.1
Northwest region <i>(Note (vi))</i>	3,910	1.8	5,662	1.7
Total	<u>214,068</u>	<u>100.0</u>	<u>344,075</u>	<u>100.0</u>

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 2024. It contributed 53.7% and 54.7% of the total revenue of the Group for the Year 2024 and the Year 2023, respectively. The decrease in total revenue of the Group by approximately 37.8% for the Year 2024 as compared to that of the Year 2023 was mainly due to the temporary suspension of production due to the renovation work carried out on a preparation workshop during the period from February to May 2024, and the impact of new national policies as well as decline in active customers.

The overall gross profit margin for the Year 2024 decreased to approximately 25.8% from approximately 30.3% for the Year 2023. The decrease was mainly due to the increase in costs of raw materials and over absorption of fixed cost under cost of sales due to the abovementioned suspension.

OPERATING COSTS AND EXPENSES

For the Year 2024, selling and distribution expenses of the Group decreased by approximately 8.6% from approximately RMB24.4 million for the Year 2023 to approximately RMB22.3 million for the Year 2024. The expenses of the advertising production company remained unchanged from the Year 2023, the decrease was mainly due to the decrease in freight charges by approximately RMB2.0 million which is resulted from the decrease in sales during the Year 2024.

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 20.2% in the administrative and other operating expenses from approximately RMB11.4 million for the Year 2023 to approximately RMB9.1 million for the Year 2024. This was mainly due to the decrease of approximately RMB1.7 million in other tax expenses resulted from decreased in revenue and the decrease of approximately RMB0.3 million in consultation expenses during the Year 2024.

Finance costs decreased by approximately RMB4,000 for the Year 2024. Such decrease was primarily due to the decrease in interest of lease liabilities during the Year 2024.

OPERATING RESULTS

Profit before tax decreased by approximately 78.3% from approximately RMB68.3 million for the Year 2023 to approximately RMB14.8 million for the Year 2024. This was mainly due to the decrease in profit attributable to the temporary suspension of production due to the renovation work on a preparation workshop during the period from February to May 2024 and the impact of new national policies as well as decline in active customers.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2024, total assets held by the Group was approximately RMB540.3 million (31 December 2023: approximately RMB528.5 million), which comprise mainly of bank balances and cash of approximately RMB229.7 million (31 December 2023: approximately RMB286.3 million).

As at 31 December 2024, the Group had total liabilities of approximately RMB56.1 million (31 December 2023: approximately RMB55.6 million) which comprise mainly of trade and other payables amounting to approximately RMB48.9 million (31 December 2023: approximately RMB48.8 million).

As at 31 December 2024, the gearing ratio, expressed as a percentage of total borrowings including lease liabilities over total equity, was about 0.03% (31 December 2023: approximately 0.02%).

CONTINGENT LIABILITIES

As at 31 December 2024, the Group had no material contingent liabilities (31 December 2023: Nil).

EXPOSURE TO FLUCTUATION IN EXCHANGE RATE

The majority of the Group's business and borrowings are denominated and accounted for in RMB. The Group, therefore, does not have any significant exposure to foreign exchange fluctuation.

The Board does not expect the fluctuation of RMB exchange rate and other foreign exchange fluctuation will have any material impact on the business operations or financial results of the Group. However, the Group will closely monitor the foreign exchange market and take appropriate and effective measures from time to time to reduce any negative impact from exchange-rate risk to the furthest extent including establishment of a hedging policy.

CHARGES ON GROUP'S ASSETS

As at 31 December 2024, the Group did not have any charge on its assets (31 December 2023: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2024, the Group had 190 employees (31 December 2023: 191). The total staff costs including directors' remuneration for the Year 2024 were approximately RMB15.5 million (Year 2023: approximately RMB17.1 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 2024.

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries, associated companies and joint ventures as at 31 December 2024.

CAPITAL EXPENDITURE

For the Year 2024, the Group spent approximately RMB116.9 million (Year 2023: approximately RMB13.4 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 2024 (Year 2023: Nil).

OTHER INFORMATION

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

During the Year 2024, 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 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 2024, the Company complied with all applicable code provisions as set out in 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 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 2024.

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.

Pursuant to Catalogue of Restricted Foreign Investment Industries (2024 version) (the “**2024 Catalogue**”) issued by the National Development and Reform Commission on 8 September 2024 which, compared with the 2021 catalogue, has fully lifted the restrictions on foreign investments in the manufacturing sector, including the application of steaming, frying, moxibustion, calcination, and other processing techniques of traditional Chinese medicine decoction pieces, as well as the production of confidential prescription products of proprietary Chinese medicines (i.e. 中藥飲片的蒸、炒、炙、煨等炮製技術的應用及中成藥保密處方產品的生產).

By virtue of the 2024 Catalogue, the Company is prepared to report to the relevant departments and authorities at provincial level, municipal level (where Shijiazhuang Pharmaceutical Research is located) and county level (where Chengde Yushi is located).

It is expected that the abovementioned reporting will be completed in or about second half of 2026. Upon completion, the new contractual arrangements will be unwound. The Company will make necessary disclosure in compliance with the requirements under the Listing Rules and HKEX Guidance Letter GL77-14 in relation to the unwinding in due course.

CONSTITUTIONAL DOCUMENT

During the Year 2024, the Company had not made any changes to its articles of association. An up-to-date version of the Company’s articles of association is available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cdysjdy.com).

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 2024.

SCOPE OF WORK OF FORVIS 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 2024 as set out in this announcement have been agreed by the Company’s auditor, Forvis Mazars CPA Limited, to the amounts set out in the Company’s consolidated financial statements for the Year 2024. The work performed by Forvis 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 Forvis Mazars CPA Limited on this preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

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

Hong Kong, 26 March 2025

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.