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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 2020

ANNUAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Modern Chinese Medicine Group Co., Ltd. (the “**Company**”, and together with its subsidiaries, the “**Group**”) is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2020 (the “**Year 2020**”), together with the comparative figures for the year ended 31 December 2019 as set out below. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Company’s prospectus dated 31 December 2020 (the “**Prospectus**”). The consolidated financial statements of the Group for the Year 2020 have been reviewed by the audit committee of the Company (the “**Audit Committee**”) and audited by the Company’s auditor.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the year ended	
		31 December	
		2020	2019
	Note	RMB'000	RMB'000
Revenue	4	308,692	218,767
Cost of sales		<u>(171,831)</u>	<u>(119,698)</u>
Gross profit		136,861	99,069
Other income	5	403	174
Selling and distribution expenses		(10,349)	(8,105)
Administrative and other operating expenses		(21,823)	(14,124)
Finance costs	6	(247)	–
Listing expenses		<u>(14,367)</u>	<u>(11,758)</u>
Profit before tax	6	90,478	65,256
Income tax expenses	7	<u>(26,901)</u>	<u>(19,019)</u>
Profit for the year		63,577	46,237
Other comprehensive income (loss)			
<i>Item that may be reclassified subsequently to profit or loss</i>			
Exchange differences on consolidation/combination		<u>1,559</u>	<u>(138)</u>
Total comprehensive income for the year		<u>65,136</u>	<u>46,099</u>
Earnings per share attributable to owners of the Company		RMB cents	RMB cents
Basic and diluted	8	<u>14.13</u>	<u>10.27</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December	
		2020	2019
	Note	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		11,565	12,527
Right-of-use assets		2,524	1,985
Deposits paid for acquisition of property, plant and equipment		1,887	1,887
Deferred tax assets		4,418	2,150
		<u>20,394</u>	<u>18,549</u>
Current assets			
Inventories		33,964	40,933
Trade and other receivables	10	81,709	27,737
Bank balances and cash		73,191	35,891
		<u>188,864</u>	<u>104,561</u>
Current liabilities			
Trade and other payables	11	61,576	39,978
Interest-bearing borrowings		5,000	5,000
Lease liabilities		335	–
Amount due to the Ultimate Controlling Party		–	5,316
Income tax payables		7,312	3,962
		<u>74,223</u>	<u>54,256</u>
Net current assets		<u>114,641</u>	<u>50,305</u>
Total assets less current liabilities		<u>135,035</u>	<u>68,854</u>
Non-current liabilities			
Lease liabilities		203	–
NET ASSETS		<u>134,832</u>	<u>68,854</u>
Capital and reserves			
Share capital	12	–*	–*
Reserves		134,832	68,854
TOTAL EQUITY		<u>134,832</u>	<u>68,854</u>

* Represent amounts less than RMB1,000.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

* Represent amounts less than RMB1,000.

	Reserves							Total RMB'000
	Share capital RMB'000 (Note 12)	Share premium RMB'000	Capital reserve RMB'000	Special reserve RMB'000	Translation reserve RMB'000	Statutory reserve RMB'000	Accumulated profits RMB'000	
At 1 January 2019	-	-	29,540	(5,000)	-	9,923	89,356	123,819
Profit for the year	-	-	-	-	-	-	46,237	46,237
Other comprehensive loss: <i>Item that may be reclassified subsequently to profit or loss</i>								
Exchange differences on combination	-	-	-	-	(138)	-	-	(138)
Total comprehensive (loss) income for the year	-	-	-	-	(138)	-	46,237	46,099
Disposal of the Non-core Assets (Note 1)	-	-	-	5,000	-	-	(2,804)	2,196
Transactions with owners: <i>Contributions and distributions</i>								
Issue of share capital	-*	-	-	-	-	-	-	-*
Dividends (Note 9)	-	-	-	-	-	-	(103,260)	(103,260)
Appropriation to statutory reserve	-	-	-	-	-	5,190	(5,190)	-
Total transactions with owners	-*	-	-	-	-	5,190	(108,450)	(103,260)
At 31 December 2019	-*	-	29,540	-	(138)	15,113	24,339	68,854

* Represent amounts less than RMB1,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2020

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 12 August 2019. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 15 January 2021 (the “**Listing**”). The address of the Company’s registered office is 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands. The Group’s headquarters 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 was incorporated in the British Virgin Islands (the “**BVI**”). In the opinion of the Directors of the Company, the ultimate controlling party is Mr. Xie Wei (the “**Ultimate Controlling Party**”).

Pursuant to a group reorganisation (the “**Reorganisation**”) carried out by the Group in preparation for the Listing, the Company became the holding company of the entities now comprising the Group on 26 February 2020. Details of the Reorganisation are set out in the paragraph headed “Reorganisation” of the section headed “History, Development and Reorganisation” of the Prospectus.

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

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

The consolidated financial statements aim to include assets, liabilities, income and expenses that are related to and specifically identified for the production of PCM (the “**PCM Business**”). At 1 January 2019 and up to 6 September 2019, the following companies, entirely/partially owned by Chengde Yushi, were regarded as non-core assets (the “**Non-core Assets**”) of the Group, which are not directly related to, nor form part of, the Group’s principal PCM Business.

* For identification purpose only.

Name	Place of incorporation/ establishment	Equity interest held by the Group prior to disposal/ deregistration	Principal activities
黑龍江省御室酒業有限公司 Heilongjiang Yushi Wine Co., Ltd.* (“ Yushi Wine ”)	The PRC	100%	Production and wholesale of Chinese yellow wine
河北御室金丹醫藥有限公司 Hebei Yushi Jindan Pharmaceutical Co., Ltd.* (“ Hebei Yushi ”)	The PRC	80%	Retail of pharmaceutical products and health care products
河北御室健康產業有限公司 Hebei Yushi Health Industry Co., Ltd.* (“ Yushi Health ”)	The PRC	35%	Research & development and production of health food products
承德御室生物科技有限公司 Chengde Yushi Biotechnology Co., Ltd.* (“ Chengde Biotechnology ”)	The PRC	30%	Biotechnology research

The Group had segregated the relevant financial information of the Non-core Assets from the consolidated financial statements of the PCM Business at 1 January 2019 for the preparation of the consolidated financial statements. In particular, the investment made and carrying amount of the Non-core Assets at 1 January 2019 and up to 6 September 2019 was reflected as movements and balances in the consolidated statement of changes in equity under the heading of “special reserve”. Such presentation ceased following to the dissolution or transferal (to the independent third parties) of the Non-core Assets on or before 6 September 2019. The consolidated financial statements exclude the movements and balances of the Non-core Assets which, in the opinion of the Directors of the Company, are clearly delineated from the PCM Business and whose movements and balances are clearly identifiable.

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

* *For identification purpose only.*

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with the HKFRSs, the collective term of which includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by the HKICPA and accounting principles generally accepted in Hong Kong. The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

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 2019 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 HKASs 1 and 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business

Amendments to HKASs 1 and 8: Definition of Material

The amendments clarify the definition of material and align the definition used across HKFRSs.

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

Amendments to HKFRS 3: Definition of a Business

The amendments, among others, revise the definition of a business and include new guidance to evaluate whether an acquired process is substantive.

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/combinations

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

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

Merger accounting for business combination involving entities under common control

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

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

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

Subsidiaries

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

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

Future changes in HKFRSs

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

Amendments to HKFRS 16	COVID-19-Related Rent Concessions ⁽¹⁾
Amendments to HKAS 39, HKFRSs 4, 7, 9 and 16	Interest Rate Benchmark Reform – Phase 2 ⁽²⁾
Amendments to HKAS 16	Proceeds before Intended Use ⁽³⁾
Amendments to HKAS 37	Cost of Fulfilling a Contract ⁽³⁾
Amendments to HKFRS 3	Reference to the Conceptual Framework ⁽³⁾
Annual Improvements to HKFRSs	2018–2020 Cycle ⁽³⁾
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁽⁴⁾
HKFRS 17	Insurance Contracts ⁽⁴⁾
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽⁵⁾

⁽¹⁾ Effective for annual periods beginning on or after 1 June 2020

⁽²⁾ Effective for annual periods beginning on or after 1 January 2021

⁽³⁾ Effective for annual periods beginning on or after 1 January 2022

⁽⁴⁾ Effective for annual periods beginning on or after 1 January 2023

⁽⁵⁾ 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 periods, as the Group manages its business as a whole as the production of PCM in the PRC and the executive Directors of the Company, being the chief operating decision-makers of the Group, regularly review the internal financial reports on the same basis for the purposes of allocating resources and assessing performance of the Group. Segment information is not presented accordingly.

The Company is an investment holding company and the principal place of the Group's operation is the PRC. All of the Group's revenue from external customers during the reporting periods is derived from the PRC and almost all of the Group's assets and liabilities are located in the PRC.

Information about major customer

Revenue from customer individually contributing 10% or more of the total revenue of the Group is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Customer A	<u>33,254</u>	<u>23,511</u>

4. REVENUE

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from contracts with customers within HKFRS 15 <i>At a point in time</i>		
– Production of PCM	<u>308,692</u>	<u>218,767</u>

5. OTHER INCOME

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest income	136	146
Exchange gain, net	–	1
Gain on disposal of property, plant and equipment	–	1
Sundry income	<u>267</u>	<u>26</u>
	<u>403</u>	<u>174</u>

6. PROFIT BEFORE TAX

This is stated after charging:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Finance costs		
Interest on interest-bearing borrowings	228	–
Interest on lease liabilities	19	–
	<u>247</u>	<u>–</u>
Staff costs (including Directors' emoluments)		
Salaries, allowances, discretionary bonus, and other benefits in kind	12,313	9,477
Contributions to defined contribution plans	1,278	1,835
	<u>13,591</u>	<u>11,312</u>
Other items		
Auditor's remuneration	1,424	20
Cost of inventories (<i>Note</i>)	171,831	119,698
Exchange loss, net	58	–
Depreciation of right-of-use assets (charged to "administrative and other operating expenses")	329	60
Depreciation of property, plant and equipment (charged to "cost of sales" and "administrative and other operating expenses", as appropriate)	1,506	1,490
Expenses recognised under short-term leases	238	187
Provision for loss allowance for trade receivables, net	276	–
Research and development expenses	10,200	8,300

Note: Cost of inventories included approximately RMB9,316,000 and RMB1,469,000 (2019: RMB7,890,000 and RMB1,461,000) relating to staff costs and depreciation, respectively, which were included in the respective amounts as disclosed above for the Year 2020.

7. INCOME TAX EXPENSES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current tax		
PRC enterprise income tax (“PRC EIT”)	29,169	21,120
Deferred tax		
Changes in temporary differences	<u>(2,268)</u>	<u>(2,101)</u>
Total income tax expenses for the year	<u>26,901</u>	<u>19,019</u>

The Group’s entities established in the Cayman Islands and the BVI are exempted from income tax of those jurisdictions.

The Group’s entities established in the PRC are subject to PRC EIT at a statutory rate of 25% during the years ended 31 December 2020 and 2019.

Hong Kong Profits Tax has not been provided as the Group had no assessable profit arising from Hong Kong for the years ended 31 December 2020 and 2019.

Reconciliation of income tax expenses

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit before tax	<u>90,478</u>	<u>65,256</u>
Income tax at statutory tax rate applicable in respective tax jurisdictions	22,619	16,314
Non-deductible expenses	4,268	2,705
Others	<u>14</u>	<u>–</u>
Income tax expenses for the year	<u>26,901</u>	<u>19,019</u>

8. EARNINGS PER SHARE

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

	2020 RMB'000	2019 <i>RMB'000</i>
Profit for the year attributable to owners of the Company, used in basic and diluted earnings per share calculation	<u><u>63,577</u></u>	<u><u>46,237</u></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><u>450,000</u></u>	<u><u>450,000</u></u>

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share were on the basis as if the Reorganisation and Capitalisation Issue (Note 12) had been effective on 1 January 2019.

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 2020 and 2019.

9. DIVIDENDS

	2020 RMB'000	2019 <i>RMB'000</i>
Dividends declared to the then equity owners of the entities now comprising the Group	<u><u>-</u></u>	<u><u>103,260</u></u>

Dividend per share is not presented as its inclusion, for the purpose of the consolidated financial statements, is not considered meaningful.

10. TRADE AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables		
From third parties	77,850	22,690
Less: Loss allowances	<u>(389)</u>	<u>(113)</u>
	<u>77,461</u>	<u>22,577</u>
Other receivables		
Prepayments (<i>Note</i>)	4,095	4,958
Deposits paid to suppliers	–	81
Other deposits and receivables	<u>153</u>	<u>121</u>
	<u>4,248</u>	<u>5,160</u>
	<u>81,709</u>	<u>27,737</u>

Note: The amounts at 31 December 2020 included prepaid research and development expenses of approximately RMB1,300,000 (2019: RMB4,900,000).

Trade receivables

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 30 days	45,628	15,293
31 to 60 days	31,833	7,234
61 to 90 days	<u>–</u>	<u>50</u>
	<u>77,461</u>	<u>22,577</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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Not yet due	<u>77,461</u>	<u>22,527</u>
Past due:		
Less than 30 days	<u>–</u>	<u>50</u>
	<u>77,461</u>	<u>22,577</u>

11. TRADE AND OTHER PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables		
To third parties	<u>26,884</u>	<u>27,891</u>
Other payables		
Monetary marketing incentives payables (<i>Note i</i>)	11,184	22
Value-added tax and other tax payables	3,713	1,124
Salary payables	952	957
Accruals and other payables (<i>Note ii</i>)	<u>18,843</u>	<u>9,984</u>
	<u>34,692</u>	<u>12,087</u>
	<u>61,576</u>	<u>39,978</u>

Notes:

- i. The credit term for the monetary marketing incentives payables are not more than 90 days from the date of issuance of invoices.
- ii. The amounts at 31 December 2020 and 2019 included accrued listing expenses of approximately RMB12,398,000 and RMB5,139,000, respectively.

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:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 30 days	25,681	27,807
31 to 60 days	1,165	78
61 to 90 days	<u>38</u>	<u>6</u>
	<u>26,884</u>	<u>27,891</u>

12. SHARE CAPITAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 12 August 2019. Upon its incorporation, the authorised share capital of HK\$380,000 was divided into 38,000,000 ordinary shares at HK\$0.01 each and 1 ordinary share was issued.

Pursuant to the resolution of the Company's shareholders passed on 18 December 2020, inter-alia, the authorised share capital of the Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of an additional 9,962,000,000 shares of HK\$0.01 each and the Capitalisation Issue (as defined below) was conditionally approved.

Pursuant to the Reorganisation, 99 shares were allotted and issued on 18 December 2020, and credited as fully paid by the Company to Modern Biotechnology in consideration of the capitalisation of loan in the amount of HK\$1,000,000 (equivalent to approximately RMB842,000) owing by the Company to Modern Biotechnology. Accordingly, the excess of the carrying amount of the loan capitalised over the nominal value of 99 ordinary shares was credited to the share premium.

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.

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.

13. COMMITMENTS

Capital expenditure commitments

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Contracted but not provided net of deposits paid for acquisition of property, plant and equipment	<u>7,548</u>	<u>7,548</u>

14. RELATED PARTY INFORMATION

In addition to the transactions/information disclosed elsewhere in the consolidated financial statements during the years ended 31 December 2020 and 2019, further information of the related parties is set out below:

(a) Related party balances

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Amount due to the Ultimate Controlling Party	<u>-</u>	<u>5,316</u>

The amount due is non-trade in nature, unsecured, interest-free, repayable on demand.

(b) Related party transactions

- (i) Transactions between the group entities have been eliminated on consolidation and are not disclosed. During the years ended 31 December 2020 and 2019, the Group had the following significant transactions with related parties. In the opinion of the Directors of the Company, they are under normal commercial terms that are fair and reasonable and in the best interests of the Group.

Name of the related company	Nature of transaction	2020 RMB'000	2019 RMB'000
吉林省天天大健康醫藥物流配送有限公司 Jilin Tiantian Universal Health Medicine Logistics Distribution Co., Ltd.* ("Jilin Tiantian") (Note)	Sales of PCM	—	1,485

Note: Jilin Tiantian ceased to be the related company of the Group on 2 January 2020 when all of the equity interests in Jilin Tiantian held by Mr. Xie Donghua, the father of the Ultimate Controlling Party, was disposed to an independent third party.

* For identification purpose only.

- (ii) Remuneration for key management personnel (i.e. Directors of the Company) of the Group:

	2020 RMB'000	2019 RMB'000
Salaries, allowances, discretionary bonus, and other benefits in kind	1,071	703
Contributions to defined contribution plans	103	146
	<u>1,174</u>	<u>849</u>

15. EVENTS AFTER THE REPORTING PERIOD

On 15 January 2021, the shares of the Company were listed on the Main Board of the Stock Exchange, details of which are set out in the Company's announcement dated 14 January 2021.

Saved as disclosed above, the Directors are not aware of any significant event requiring disclosure that has taken place subsequent to 31 December 2020 and up to the date of this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

GENERAL OVERVIEW

The Group is principally engaged in the production of PCM, in particular over-the-counter and prescribed medicines intended for use by the middle-aged and the elderly in the PRC. The Group currently has about 60 types of PCM products, the major products of which include Vigour and Vitality Supplement Pill (補腎填精丸), Circulation Enhancement Pill (氣血雙補丸), Cardiotonic Enhancement Capsule (山玫膠囊), Kidney Invigoration Pill (金匱腎氣丸), Heart Wellness Capsule (心安膠囊), Menstrual Discomfort Relief Pill (加味逍遙丸), Liver Detox Tablet (護肝片), Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸).

The Group is considered as one of the leading companies engaged in the production of PCM in terms of the sales of Qi (氣)-deficiency and blood-stasis PCM pills (補氣補血類中成藥丸) and cardio-cerebrovascular PCM capsules (心腦血管中成藥膠囊) in Northeast, the PRC in 2019. Generally, the intended therapeutic effects of the Group's major products are for the treatment and/or alleviation of (i) Qi (氣)-deficiency and blood-stasis condition; (ii) cardio-cerebrovascular condition; (iii) digestive and gastrointestinal condition; and (iv) gynaecological condition. At the same time, some of the Group's major products are believed to be having the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness.

In view of the unfulfilled demand for Vigour and Vitality Supplement Pill (補腎填精丸) and Circulation Enhancement Pill (氣血雙補丸) in Northeast and Huanan (華南) in the PRC, the Group has focused and broadened the distribution network in these regions since the year of 2015. Such move was proven to be successful as evidenced by the increase of approximately 239.1% in total revenue derived from Northeast and Huanan (華南) in the PRC over the 4 years' period from 2017 to 2020.

The Group has currently established a distribution network of over 70 distributors covering about 40 cities in the PRC, which are in turn served and administered by over 30 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, it is also considered that the distribution network would not only help to develop the business operations geographically from Northeast to other areas in the PRC, but also allow the Group to penetrate in reasonably extensive width and breadth in Northeast, 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 2020, the revenue contribution from Northeast, the PRC was approximately 53.4% (2019: approximately 55.0%) of the Group's total revenue.

BUSINESS STRATEGIES AND IMPLEMENTATION PLAN

The shares of the Company were listed on 15 January 2021 and therefore the proceeds from the Global Offering were received subsequent to the Year 2020. Hence, the implementation plan for the business strategies as stated in the Prospectus has not yet commenced during the Year 2020. The net proceeds from the Global Offering, after deduction of the underwriting fees and commissions and expenses of the Company in connection with the Global Offering amounted to approximately HK\$114.1 million. The Group is in its preliminary stage of implementing its business strategies and intended to utilise the fund raised from the Global Offering in accordance with the purposes stated in the Prospectus. The table below sets out the planned allocations of the net proceeds:

Net proceeds from the Global Offering (HK\$)	Approximate % of use of proceeds	Intended use of proceeds
51.7 million	45.3	Enhancing and expanding our production capacity to further produce our major prescribed medicine, in particular our major capsule products with the intended effect of treating/alleviating cardio-cerebrovascular (心腦血管) condition
19.7 million	17.3	Broadening our distribution network in Huanan (華南) and Huadong (華東) in the PRC
12.0 million	10.5	Raising our brand awareness through media marketing and promotion efforts
23.4 million	20.5	Further raising our R&D efforts, procuring quality management equipment and broadening our product portfolio
4.0 million	3.5	Upgrading our IT system
3.3 million	2.9	Increasing general working capital
<u>114.1 million</u>	<u>100.0</u>	

FINANCIAL REVIEW

The Group posted a consolidated revenue of approximately RMB308.7 million for the Year 2020, representing an increase of approximately RMB89.9 million or 41.1% as compared to the year ended 31 December 2019. The increase in revenue was primarily driven by the surge in revenue generated from the sales of two of our major products, namely Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) which were believed to have an intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness.

Vigour and Vitality Supplement Pill (補腎填精丸) and Circulation Enhancement Pill (氣血雙補丸) were the top selling products for both of the Year 2020 and the year ended 31 December 2019. These two products contributed approximately 38.3% and 40.8% of the Group's total revenue for the Year 2020 and the year ended 31 December 2019, respectively. This slight decrease in percentage of revenue in the Year 2020 is considered to be attributable to the surging demand of Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸).

Other than Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸), all of our other major products exhibited a decline in percentage of revenue for the Year 2020 as compared to the year ended 31 December 2019 due to the fact that relatively more resources were allocated to the production of these two products in the Year 2020. The percentage of revenue generated from Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) has outweighed such impact.

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

	For the year ended 31 December			
	2020 Approximate		2019 Approximate	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Northeast <i>(Note i)</i>	164,994	53.4	120,252	55.0
Huadong (華東) <i>(Note ii)</i>	25,800	8.4	24,885	11.4
Huanan (華南) <i>(Note iii)</i>	52,335	17.0	33,500	15.3
Huabei (華北) <i>(Note iv)</i>	55,053	17.8	33,178	15.2
Southwest <i>(Note v)</i>	6,267	2.0	4,303	2.0
Northwest <i>(Note vi)</i>	4,243	1.4	2,649	1.1
Total	<u>308,692</u>	<u>100.0</u>	<u>218,767</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 as the largest contributor to the Group's total revenue for the Year 2020. It contributed over 50% of the Group's total revenue for both of the Year 2020 and the year ended 31 December 2019. Sales performance for all other regions other than Northeast for the Year 2020 has, nevertheless, shown a mild increase in revenue over that of the year ended 31 December 2019. The increase in total revenue by approximately 41.1% for the Year 2020 as compared to the year ended 31 December 2019 was mainly due to the growth from Northeast, Huabei (華北) and Huanan (華南) by approximately RMB44.7 million, RMB21.9 million and RMB18.8 million, respectively.

The Group manages the overall gross profit margin to ensure overall profitability of the Group while allowing flexible price adjustments for individual products.

For the Year 2020, the overall gross profit margin decreased slightly to approximately 44.3% as compared to approximately 45.3% for the year ended 31 December 2019. This was mainly due to the decrease in gross profit margin of Vigour and Vitality Supplement Pill (補腎填精丸), which resulted from the large increase in the purchase price of Deer Antler (鹿茸), one of the major raw materials for this product, for the Year 2020.

For the Year 2020, Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) were two of the major products as they were believed to have the intended therapeutic effect for the treatment of the symptoms of COVID-19 and/or similar illness. They both had higher gross profit margins due to the surging demand and hence there was no monetary marketing incentives offered during the Year 2020. The higher gross profit margin of these two products have compensated the decrease in gross profit margins of some other major products, in particular, Vigour and Vitality Supplement Pill (補腎填精丸) and Heart Wellness Capsule (心安膠囊).

OPERATING COSTS AND EXPENSES

Selling and distribution expenses of the Group increased by approximately 27.2% from approximately RMB8.1 million for the year ended 31 December 2019 to approximately RMB10.3 million for the Year 2020. This was mainly due to the increase in logistic expenses by approximately RMB1.0 million resulting from the increase in revenue in the Year 2020; and increase in advertising and promotions by approximately RMB0.9 million spent on the printed media promotion in the Year 2020.

Administrative and other operating expenses primarily consist primarily of staff costs, legal and professional fees, other taxes, R&D costs and others. There was an increase of approximately 54.6% in the administrative and other operating expense for the Year 2020 in comparison with those of the year ended 31 December 2019. This was mainly due to (i) approximately RMB1.9 million increase in R&D costs for the R&D of a new product Stroke Prevention Capsule (耆丹禦風膠囊) and enhancement of the existing product, Heart Wellness Capsule (心安膠囊); (ii) approximately RMB1.5 million increase in the legal and other professional fees; and (iii) increase in promotional expenses of approximately RMB2.7 million for the Company's branding.

Finance costs was increased by approximately RMB0.2 million for the Year 2020 which was primarily due to the Group has drawn down a new loan in late December 2019.

OPERATING RESULTS

Profit before taxation increased by approximately 38.6% from approximately RMB65.3 million for the year ended 31 December 2019 to approximately RMB90.5 million in the Year 2020 which was primarily due to the increase in sales of Additional Ingredient Huoxiang ZhengQi Pill (加味藿香正氣丸) and Fever-removing and Detoxification Pill (清瘟解毒丸) during the Year 2020.

LIQUIDITY AND FINANCIAL RESOURCES

The shares of the Company were successfully listed on the Main Board of the Stock Exchange on 15 January 2021. There has been no change in the capital structure of the Group since then. The Group now funds its business and working capital requirements by using a balanced mix of internal resources, bank borrowings and the net proceeds from the Global Offering. The funding mix will be adjusted depending on the costs of funding and the actual needs of the Group.

As at 31 December 2020, the Group held total assets of approximately RMB209.3 million (31 December 2019: approximately RMB123.1 million), including bank balances and cash of approximately RMB73.2 million (31 December 2019: approximately RMB35.9 million).

As at 31 December 2020, the Group had total liabilities of approximately RMB74.4 million (31 December 2019: approximately RMB54.3 million) which comprises mainly of trade and other payables amounting to approximately RMB61.6 million (31 December 2019: approximately RMB40.0 million).

As at 31 December 2020, the gearing ratio, expressed as a percentage of total loans (including interest-bearing borrowings and lease liabilities) over total equity, was about 3.9% (31 December 2019: approximately 7.3%). This significant reduction was mainly resulted from the increase in total equity as at 31 December 2020.

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no material contingent liabilities (31 December 2019: 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 2020, the Group had a bank loan of RMB5.0 million (31 December 2019: RMB5.0 million) secured by the legal charges over the Group's certain leasehold land and buildings with a total carrying value of approximately RMB0.8 million as at 31 December 2020 (31 December 2019: approximately RMB0.8 million);

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 172 employees (31 December 2019: 176). The total staff costs including directors' remuneration for the Year 2020 were approximately RMB13.6 million (2019: approximately RMB11.3 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 2020.

The Group did not have other plans for significant investments, acquisitions and disposal of subsidiaries, associated companies and joint ventures as at 31 December 2020.

CAPITAL EXPENDITURE

For the Year 2020, the Group spent approximately RMB0.5 million (2019: approximately RMB1.1 million) on capital expenditure, which was primarily related to the acquisition of plant and machinery.

DIVIDEND

The Board does not recommend the payment of any dividend for the Year 2020.

OUTLOOK AND PROSPECTS

2020 was a year of challenges and opportunities to the PRC PCM industry. While the COVID-19 pandemic may have posed difficulties to the production and operation of some pharmaceutical companies, the industry overall is still experiencing solid growth with favourable support from various government policies of promoting PCM industry. The pandemic has also brought the outstanding contribution of the traditional Chinese medicine to the limelight; certain PCM products have been recommended by the PRC Government for the treatment of the symptoms of COVID-19 and/or similar illness.

The Group has confidence in the future prospects of the economy of the PRC as well as the PCM industry. We believe that new investments and consumption growth will bring opportunities to the PCM industry. Leveraging on our product expertise, established brand name and seasoned management team, and through our experienced sales and marketing team, we will continue to implement our long-term growth strategies, seize all the developmental opportunities arising from the promotion of inheritance and innovation of traditional Chinese medicine by the PRC Government and strive to consolidate the Group's market position, creating greater value for our shareholders.

In addition, the COVID-19 pandemic has raised public awareness of healthcare, altered public's consumption pattern and shopping habits. The Group will continue to evaluate and consider the development of different online channels by identifying distributors with such capability. The Group aims to further strengthen its brand image and capture potential growth from online and offline integration.

OTHER INFORMATION

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

The shares of the Company were listed on the Main Board of the Stock Exchange on 15 January 2021 (the “**Listing Date**”). As the shares of the Company were not listed on the Main Board of the Stock Exchange as at 31 December 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Year 2020. Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities after the Listing Date and up to the date of this announcement.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules since the Listing Date.

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 2020.

SCOPE OF WORK OF MAZARS CPA LIMITED

The figures in respect of the preliminary announcement of the Group's consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and the related notes thereto for the Year 2020 have been agreed by the Group's auditor, Mazars CPA Limited, to the amounts set out in the Group's consolidated financial statements for the Year 2020. The work performed by Mazars CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Mazars CPA Limited on this preliminary announcement.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

By order of the Board
Modern Chinese Medicine Group Co., Ltd.
Xie Wei
Chairman and Executive Director

Hong Kong, 26 March 2021

As at the date of this announcement, the Board comprises four executive Directors, namely, Mr. Xie Wei, 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.