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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)

CONTINUING CONNECTED TRANSACTIONS TERMINATION OF THE EXISTING CONTRACTUAL ARRANGEMENTS AND ESTABLISHMENT OF THE NEW CONTRACTUAL ARRANGEMENTS

Reference is made to the Prospectus in relation to the Existing Contractual Arrangements and the announcement dated 24 December 2021 related to the passing away of Mr. Xie. Ms. Sun, the widow of Mr. Xie, as at the date of this announcement, has obtained the Probate issued by the Probate Registry, which will entitle her to inherit Mr. Xie's estate, in particular, all shares Mr. Xie held in Modern Biotechnology.

In light of the expected share inheritance by Ms. Sun and to ensure the effective operation and sustainability of the control by the Company over Chengde Yushi, the Group intends to execute the New Contractual Arrangements on substantially on the same terms as those currently in place under the Existing Contractual Arrangements, save that (a) the identity of the sole registered shareholder of Chengde Yushi will be changed from Mr. Xie to Ms. Sun and (b) Ms. Sun will execute the No Spouse Undertaking as a replacement to the Existing Spouse's Undertaking.

The New Contractual Arrangements shall take effect on the date on which Ms. Sun becomes the sole registered shareholder of Chengde Yushi and Modern Biotechnology. The Existing Contractual Arrangement will be terminated concurrently upon the New Contractual Arrangements taking effect.

LISTING RULES IMPLICATIONS

At the time of the Listing, the Stock Exchange has granted the IPO Waiver in connection with the continuing connected transactions of the Group in the form of the Existing Contractual Arrangements, subject to certain conditions as set out therein. As disclosed in the Prospectus, the Existing Contractual

Arrangements may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new operating company engaging in the same business as that of the Group, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the Existing Contractual Arrangements. Since the New Contractual Arrangements are reproduced from the Existing Contractual Arrangements as provided under the conditions of the IPO Waiver except for the No Spouse Undertaking, the Company has sought confirmation from the Stock Exchange, and the Stock Exchange has confirmed, that the transactions contemplated under the New Contractual Arrangements would continue to fall within the scope of the IPO Waiver and are exempt from (i) the announcement, circular and independent Shareholders' approval requirements under Rule 14A.105 of the Listing Rules in respect of the Existing Contractual Arrangements; (ii) the requirement of setting an annual cap for the transactions under the Existing Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Existing Contractual Arrangements to three years or less under Rule 14A.52, for so long as the shares of the Company are listed on the Stock Exchange subject to compliance with the same conditions of the IPO waiver.

PASSING AWAY OF MR. XIE AND MS. SUN'S ENTITLEMENT TO INHERIT MR. XIE'S ESTATE

Mr. Xie, the controlling shareholder of the Company, a former executive director of the Company and chairman of the board of Directors, passed away on 24 December 2021. Ms. Sun, the widow of Mr. Xie, as at the date of this announcement, has obtained the Probate issued by the Probate Registry, which will entitle her to inherit Mr. Xie's estate, in particular, all shares Mr. Xie held in Modern Biotechnology. As at the date of this announcement, Ms. Sun has engaged her legal counsel in the BVI Legal Advisers to process her application to effect the transfer of title of the relevant assets and investments to herself as the executrix and sole beneficiary, hence becoming the sole shareholder of Modern Biotechnology and a controlling shareholder of the Company.

The delay in obtaining the Probate was due to the lengthy administrative procedures required to obtain court-requested documents such as translation, affirmation, and notarization, as well as the requisition time from the Probate Registry.

TERMINATION OF THE EXISTING CONTRACTUAL ARRANGEMENTS AND ESTABLISHMENT OF THE NEW CONTRACTUAL ARRANGEMENTS

The Existing Contractual Arrangements

As disclosed in the Prospectus, the Group conducts its Relevant Businesses through Chengde Yushi, under a series of contractual arrangements entered into by Shijiazhuang Medical Research. The Existing Contractual Arrangements comprise:

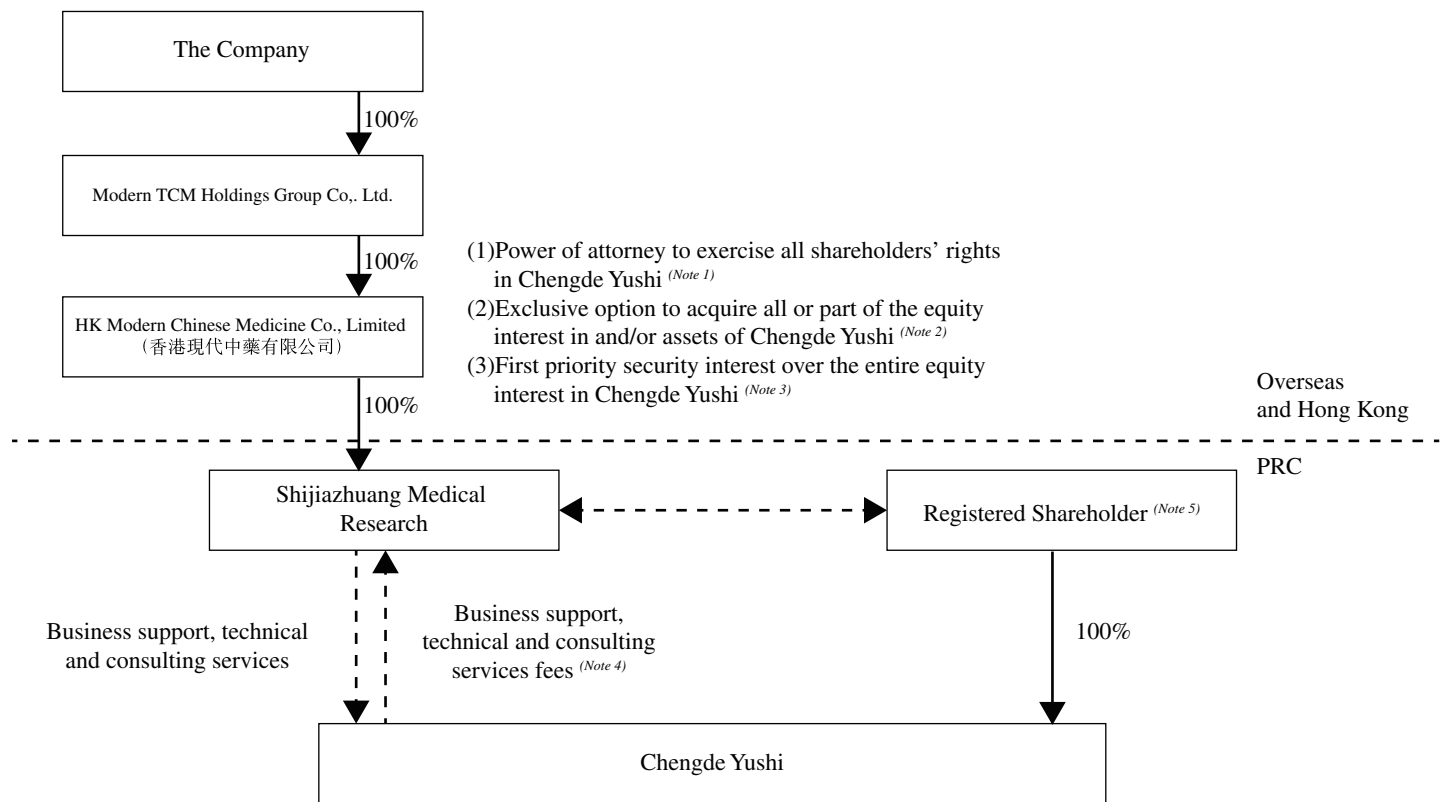
- (i) the exclusive business cooperation agreement dated 14 February 2020 entered into between Chengde Yushi and Shijiazhuang Medical Research;

- (ii) the exclusive option agreement dated 14 February 2020 entered into among Mr. Xie, Chengde Yushi and Shijiazhuang Medical Research;
- (iii) the power of attorney dated 14 February 2020 entered into among Mr. Xie, Chengde Yushi and Shijiazhuang Medical Research;
- (iv) the Existing Spouse's Undertaking; and
- (v) the equity pledge agreement dated 14 February 2020 entered into among Mr. Xie, Chengde Yushi and Shijiazhuang Medical Research.

Pursuant to the Existing Spouse's Undertaking, Ms. Sun has expressly and irrevocably acknowledged and undertaken that: (a) any equity interest held by Mr. Xie in Chengde Yushi does not fall within the scope of their communal properties (i.e., property that is acquired during the course of the couple's marriage); (b) she will not have any claim on the interests of Chengde Yushi obtained through the Existing Contractual Arrangements; and (c) she has never participated and unless with the prior written consent of Shijiazhuang Medical Research, will not participate in the operation or management of Chengde Yushi.

By the implementation of the Existing Contractual Arrangements, the Company, via Shijiazhuang Medical Research, has obtained control over Chengde Yushi, and is exposed, or has rights, to variable returns from its involvement with Chengde Yushi and has the ability to affect those returns through its power over Chengde Yushi.

According to the Existing Contractual Arrangements, any inheritor of the Registered Shareholder of Chengde Yushi shall inherit any and all rights and obligations of the Registered Shareholder under the Existing Contractual Arrangements as a result of his death, loss of capacity, marriage, divorce, bankruptcy or under other circumstances which would affect his exercise of equity interest in Chengde Yushi, as if the inheritor was a signing party to such Existing Contractual Arrangements. Our PRC Legal Advisers confirmed that after the death of Mr. Xie, the Existing Contractual Arrangements remain in full force and effect. The following diagram illustrates the operation of the Existing Contractual Arrangements:



Notes:

- (1), (2), (3) and (4) Please refer to the subsection headed “Details of the Contractual Arrangements – Power of Attorney”, “Details of the Contractual Arrangements – Exclusive Option Agreement”, “Details of the Contractual Arrangements – Equity Pledge Agreement”, “Details of the Contractual Arrangements – Exclusive Business Cooperation Agreement” under the section headed “Contractual Arrangements” of the Prospectus for details.
- (5) The Registered Shareholder is Mr. Xie, a PRC national, holding the entire equity interest in Chengde Yushi.

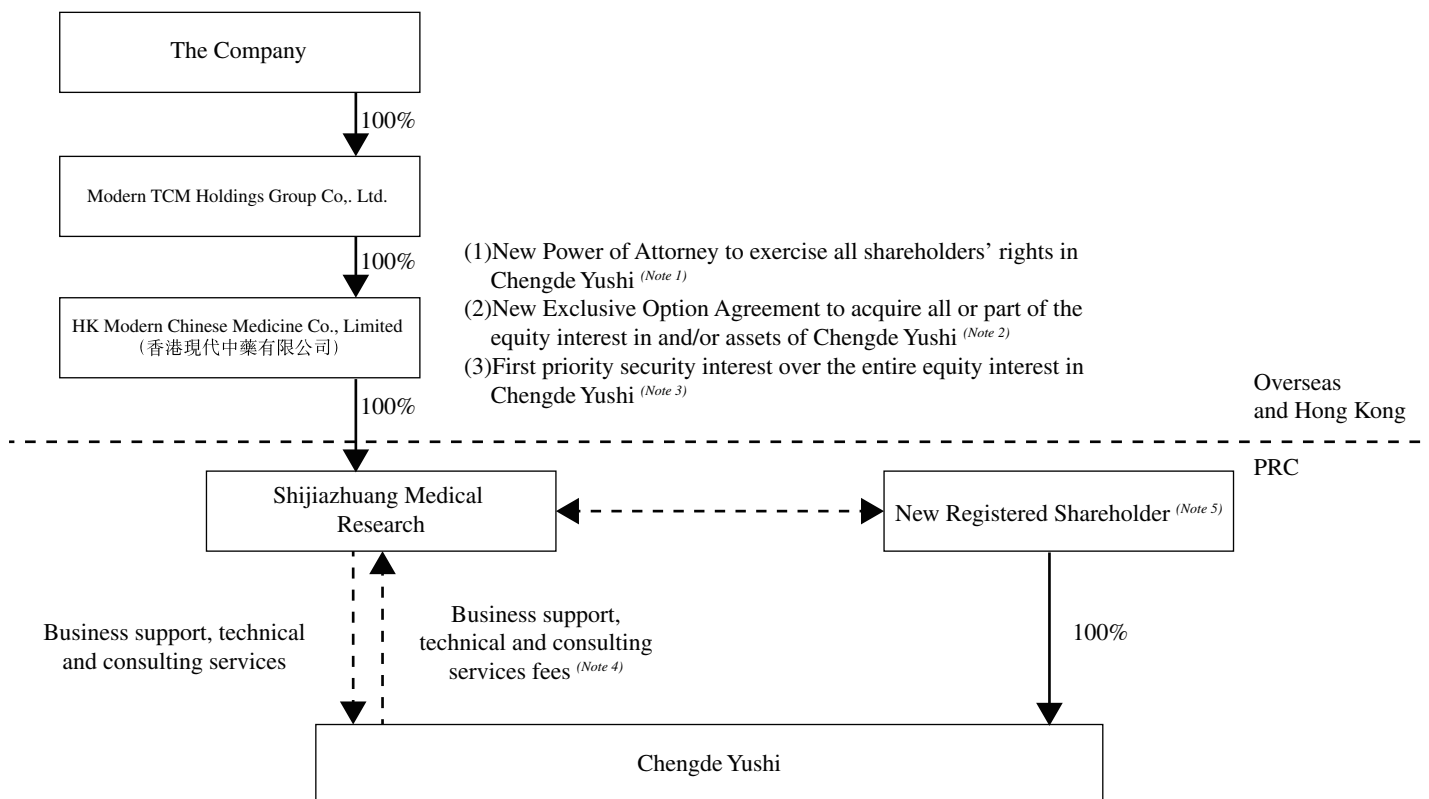
“—>” denotes direct legal and beneficial ownership in the equity interest and “- - >” denotes contractual relationship.

Proposed New Contractual Arrangements

Notwithstanding the Existing Contractual Arrangements remain in full force and effect, there remains uncertainties as to (i) whether the terms of the existing exclusive option agreement will be binding on the further successor of Ms. Sun in the event of death or any other event which causes the inability of her to perform her day-to-day obligations, bankruptcy, marriage or divorce; (ii) the need of any such further successor to execute a spouse's understanding (which has substantially the same terms and conditions as the Existing Spouse's Undertaking); and (iii) the implication and restrictions imposed on Ms. Sun under the Existing Contractual Arrangements.

Accordingly, to ensure the effective operation and sustainability of the control by the Company over Chengde Yushi, the Group intends to execute the New Contractual Arrangements on substantially on the same terms as those currently in place under the Existing Contractual Arrangements, save that (a) the identity of the sole registered shareholder of Chengde Yushi will be changed from Mr. Xie to Ms. Sun and (b) Ms. Sun will execute the No Spouse Undertaking as a replacement to the Existing Spouse's Undertaking.

The New Contractual Arrangements shall take effect on the date on which Ms. Sun becomes the sole registered shareholder of Chengde Yushi and Modern Biotechnology. The Existing Contractual Arrangement will be terminated concurrently upon the New Contractual Arrangements taking effect. The following simplified diagram illustrates the flow of economic benefits stipulated under the New Contractual Arrangements:



Notes:

- (1), (2), (3) and (4) The New Contractual Arrangements are substantially on the same terms as those currently in place under the Existing Contractual Arrangement, save that (a) the identity of the sole registered shareholder of Chengde Yushi will be changed from Mr. Xie to Ms. Sun and (b) Ms. Sun will execute the No Spouse Undertaking as a replacement to the Existing Spouse's Undertaking.
- (5) The New Registered Shareholder is Ms. Sun, a PRC national, holding the entire equity interest in Chengde Yushi.

“—>” denotes direct legal and beneficial ownership in the equity interest and “- - →” denotes contractual relationship.

Major terms of the New Contractual Arrangements

(1) New Exclusive Business Cooperation Agreement

Pursuant to the New Exclusive Business Cooperation Agreement, among other terms:

- (a) Chengde Yushi agrees to engage Shijiazhuang Medical Research as its exclusive services provider of business support, technical and consulting services to the extent allowed under the PRC laws, including the consultation services, procurement, production and sales consulting services in relation to the manufacturing and development of medicines, human resources services, tax and financial management services, information system services, internal control services, technical services, management consulting services in connection with the business operation of Chengde Yushi, consulting services in connection with the application of the necessary licenses, approvals and permits for the business operation of Chengde Yushi, in exchange for service fees. Under these arrangements, such service fees, subject to Shijiazhuang Medical Research's adjustment, are equal to the cumulative net profit of Chengde Yushi and its subsidiaries (if any). Shijiazhuang Medical Research may adjust the service fees at its sole discretion, after consideration of certain factors, including but not limited to the deduction of necessary costs, expenses, taxes and other statutory contribution in relation to the respective fiscal year, and may also include accumulated losses of Chengde Yushi and its subsidiaries (if any) from previous financial periods, which will be wired to the designated account of Shijiazhuang Medical Research upon issuance of payment notification by Shijiazhuang Medical Research;
- (b) the director, legal representative, general manager, chief financial officer and other senior management of Chengde Yushi as recommended by Shijiazhuang Medical Research are entitled to retain and exercise physical control of company seals and certificates that are crucial to the daily operations of Chengde Yushi;

- (c) Shijiazhuang Medical Research has the exclusive and proprietary rights to all intellectual properties developed by Chengde Yushi and its subsidiaries (if any), given that Shijiazhuang Medical Research provides consultation services to Chengde Yushi and its subsidiaries (if any) during the term of the New Exclusive Business Cooperation Agreement. Chengde Yushi is required under the New Contractual Arrangements to obtain Shijiazhuang Medical Research's prior written consent before they transfer, assign or dispose of any of the intellectual properties to any third party; and
- (d) the New Exclusive Business Cooperation Agreement is for an initial term of ten years and Shijiazhuang Medical Research has the right to renew the term of the New Exclusive Business Cooperation Agreement. Upon expiration of the initial term, the New Exclusive Business Cooperation Agreement will be automatically extended for an indefinite term until Shijiazhuang Medical Research serves a written notice to confirm the term of renewal.

(2) *New Exclusive Option Agreement*

Pursuant to the New Exclusive Option Agreement, among other terms:

- (a) Shijiazhuang Medical Research (or the Company or any subsidiary of the Company) is granted an irrevocable and exclusive right to purchase from Ms. Sun and/or Chengde Yushi all or any part of their equity interest in and/or assets of Chengde Yushi for a nominal price, unless the relevant government authorities or the PRC laws request that another amount be used as the purchase price, in which case the purchase price shall be the lowest amount under such request. Subject to relevant PRC laws and regulations, Ms. Sun and/or Chengde Yushi shall return any amount of purchase price they have received to Shijiazhuang Medical Research. At Shijiazhuang Medical Research's request, Ms. Sun and/or Chengde Yushi will promptly and unconditionally transfer their respective equity interests in and/or asset of Chengde Yushi to Shijiazhuang Medical Research (or the Company or any subsidiary of the Company) after Shijiazhuang Medical Research exercises its purchase right;
- (b) the New Exclusive Option Agreement is for an initial term of ten years and Shijiazhuang Medical Research has the right to renew the term of the New Exclusive Option Agreement. Upon expiration of the initial term, the New Exclusive Option Agreement will be automatically extended for an indefinite term until Shijiazhuang Medical Research serves a written notice to confirm the term of renewal;

- (c) in order to prevent the flow of the assets and value of Chengde Yushi to Ms. Sun, during the term of the New Exclusive Option Agreement, any asset of Chengde Yushi is not allowed to be sold, transferred, mortgaged or otherwise disposed without the prior written consent of Shijiazhuang Medical Research. In addition, Chengde Yushi is not allowed to make any distributions to its shareholders without the prior written consent of Shijiazhuang Medical Research. In the event that Ms. Sun receives any distribution from Chengde Yushi and subject to the PRC laws, Ms. Sun must immediately pay or transfer such distribution to Shijiazhuang Medical Research (or the Company or any subsidiary of the Company). If Shijiazhuang Medical Research exercises its purchase right, all or any part of the equity interest in and/or assets of Chengde Yushi acquired would be transferred to Shijiazhuang Medical Research and the benefits of equity ownership and/or assets, as applicable, would flow to the Company and its shareholders; and
- (d) without the prior written consent of Shijiazhuang Medical Research, Chengde Yushi shall not, among other things, (i) sell, transfer, pledge or dispose of in any manner any of its assets; (ii) execute any material contract for a value more than RMB1.0 million, except any contracts in the ordinary course of business and any contracts entered into with any members of the Group; (iii) provide any loan, financial support, pledge or guarantees in any form to any third party, or allow any third party create any pledge or other security interest on its assets or equity; (iv) incur, inherit, guarantee or allow any debt that is not incurred in the ordinary course of business of Chengde Yushi or not disclosed and consented to by Shijiazhuang Medical Research; (v) enter into any consolidation, partnership, joint venture, or merger with any third party, or acquire or invest in any third party; or (vi) increase or reduce its registered capital, or alter the structure of the registered capital, or alter the company nature of Chengde Yushi in any other way. The New Exclusive Option Agreement provides that Ms. Sun and Chengde Yushi shall procure the subsidiaries of Chengde Yushi (if any) to comply with the above undertaking as if they are parties to the New Exclusive Option Agreement.

(3) *New Power of Attorney*

Pursuant to the New Power of Attorney, among other terms:

- (a) Ms. Sun appoints Shijiazhuang Medical Research or a director of its offshore holding company or its/his/her successor (including a liquidator replacing Shijiazhuang Medical Research's director) as her attorney to act on her behalf on all matters concerning Chengde Yushi and to exercise all of her rights as the sole registered shareholder of Chengde Yushi. Such rights include (i) the right to propose, convene and attend shareholders' meetings (if any); (ii) the right to sell, transfer, pledge or dispose of shares; (iii) the right to exercise shareholders' voting rights; and (iv) the right to act as the legal representative, chairperson, the executive director, the director, supervisor, the chief executive officer (or general manager) and other senior management members of Chengde Yushi. The authorised person is entitled to sign minutes, file documents with the relevant companies registry and exercise voting rights on the winding up of Chengde Yushi on behalf of the registered shareholders of Chengde Yushi. Ms. Sun has also undertaken to transfer all assets obtained after the winding up of Chengde Yushi to Shijiazhuang Medical Research at nil consideration or the lowest price permissible by the then applicable PRC laws;

- (b) in order to avoid potential conflicts of interest, if Ms. Sun becomes an officer or a director of Shijiazhuang Medical Research or the Company, the power of attorney is granted in favour of other unrelated officers or directors of the Company;
- (c) the Power of Attorney shall automatically terminate once Shijiazhuang Medical Research (or any member of the Group other than Chengde Yushi and its subsidiaries (if any)) directly holds the entire equity interests in and/or the entire assets of Chengde Yushi once permitted under the then PRC laws and Shijiazhuang Medical Research (or its subsidiaries (if any)) is allowed to conduct the Relevant Businesses under the then PRC laws, following which Shijiazhuang Medical Research is registered as the sole shareholder of Chengde Yushi.

(4) *New Equity Pledge Agreement*

Pursuant to the New Equity Pledge Agreement, among other terms:

- (a) Ms. Sun pledges as first charge all of her equity interest in Chengde Yushi to Shijiazhuang Medical Research as collateral security for any or all of her payments due to Shijiazhuang Medical Research and to secure performance of (i) the respective obligations of Chengde Yushi and Ms. Sun under the New Exclusive Option Agreement and the New Power of Attorney; and (ii) the obligations of Chengde Yushi under the New Exclusive Business Cooperation Agreement;
- (b) the New Equity Pledge Agreement will not terminate until (i) all obligations of Chengde Yushi and Ms. Sun under the New Contractual Arrangements are satisfied in full; (ii) Shijiazhuang Medical Research and/or its designee exercises its exclusive option to purchase the entire equity interests of Ms. Sun in Chengde Yushi and/or the entire assets of Chengde Yushi pursuant to the terms of the New Exclusive Option Agreement when it is permitted to do so under the applicable PRC laws and conduct(s) the Relevant Businesses of Chengde Yushi upon the legal acquisition of these equity interests and assets in accordance with the PRC Laws; (iii) Shijiazhuang Medical Research exercises its unilateral and unconditional right of termination; or (iv) the agreement is required to be terminated in accordance with applicable PRC laws;
- (c) in addition, Ms. Sun may not transfer or permit the encumbrance of any of her equity interests in and assets of Chengde Yushi (including any equity interests in and assets of the subsidiaries of Chengde Yushi (if any)) without Shijiazhuang Medical Research's prior written consent;
- (d) should an event of default (as provided in the New Equity Pledge Agreement) occur, unless it is successfully resolved to Shijiazhuang Medical Research's satisfaction within 30 days upon being notified by Shijiazhuang Medical Research, Shijiazhuang Medical Research may demand that Ms. Sun and/or Chengde Yushi immediately pay all outstanding payments due under the New Exclusive Business Cooperation Agreement, repay any loans and make all other payments due to it, and/or dispose of the pledged equity interests and use the proceeds to repay any outstanding payments due to Shijiazhuang Medical Research.

(5) *No Spouse Undertaking*

Pursuant to the No Spouse Undertaking, which shall have the same term as and incorporate the terms of the New Exclusive Business Cooperation Agreement, Ms. Sun expressly and irrevocably acknowledges and undertakes that:

- (a) she does not have any spouse;
- (b) if she enters into marriage during the effective period of the New Contractual Arrangements, she shall procure her then spouse to sign the spouse's undertaking, which shall stipulate that:
 - (i) any equity interest held by Ms. Sun does not fall within the scope of the communal properties of Ms. Sun and her then spouse;
 - (ii) her then spouse will not have any claim on the interests of Chengde Yushi obtained through the New Contractual Arrangements; and
 - (iii) her then spouse has never participated and unless with the prior written consent of Shijiazhuang Medical Research, will not participate in the operation or management of Chengde Yushi;
- (c) if she enters into marriage during the effective period of the New Contractual Arrangements, she will make appropriate arrangements in advance to procure that, in the event of death, loss of or restriction on capacity, bankruptcy, divorce or other circumstances that may affect performance of the obligations under the New Contractual Arrangements, her Equity Interest Successors shall agree that:
 - (i) the relevant equity interests owned by her shall and can be pledged, sold or disposed of in accordance with the New Contractual Arrangements;
 - (ii) the New Contractual Arrangements shall apply to the rights under the relevant equity interests owned by her Equity Interest Successors may own; and
 - (iii) her Equity Interest Successors shall not make any request in terms of the relevant equity interests owned by her or actions that are inconsistent with the New Contractual Arrangements.

While the Existing Spouse's Undertaking under the Existing Contractual Arrangements offered similar protections, the No Spouse Undertaking intends to offer further protection to the Company and its shareholders in the event Ms. Sun enters into another marriage.

Below we set out the major terms and the difference between the No Spouse Undertaking under the New Contractual Arrangements with the Spouse's Undertaking under the Existing Contractual Arrangements:

Existing Spouse's Undertaking under the Existing Contractual Arrangements	No Spouse Undertaking under the New Contractual Arrangements
<p>(i) any equity interest held by the Mr. Xie, as the registered shareholder of Chengde Yushi in Chengde Yushi does not fall within the scope of Mr. Xie and Ms. Sun communal properties;</p> <p>(ii) Ms. Sun will not have any claim on the interests of Chengde Yushi obtained through the Existing Contractual Arrangements; and</p> <p>(iii) Ms. Sun has never participated and unless with the prior written consent of Shijiazhuang Medical Research, will not participate in the operation or management of Chengde Yushi.</p>	<p>(a) Ms. Sun is a widow and does not have any spouse;</p> <p>(b) if Ms. Sun enters into marriage during the effective period of the New Contractual Arrangements, she shall procure her then spouse to sign a spouse's undertaking, which shall stipulate: (i) any equity interest held by Ms. Sun does not fall within the scope of the communal properties of Ms. Sun and her then spouse; (ii) her then spouse will not have any claim on the interests of Chengde Yushi obtained through the New Contractual Arrangements; and (iii) her then spouse has never participated and unless with the prior written consent of Shijiazhuang Medical Research, will not participate in the operation or management of Chengde Yushi;</p> <p>(c) if Ms. Sun enters into marriage during the effective period of the New Contractual Arrangements, Ms. Sun will make appropriate arrangements in advance to procure her Equity Interest Successors to agree: (i) the relevant equity interests owned by Ms. Sun shall and can be pledged, sold or disposed of in accordance with the New Contractual Arrangements; (ii) the New Contractual Arrangements shall apply to the rights under the relevant equity interests owned by her Equity Interest Successors may own; and (iii) her Equity Interest Successors shall not make any request in terms of the relevant equity interests owned by her or actions are inconsistent with the New Contractual Arrangements.</p>

Legality of the New Contractual Arrangements

Based on the above, our PRC Legal Advisers are of the opinion that:

- (a) apart from the No Spouse Undertaking, the New Contractual Arrangements are on substantially the same terms as those currently in place under the Existing Contractual Arrangements;
- (b) Shijiazhuang Medical Research and Chengde Yushi were duly established and validly existing under the PRC laws, and have obtained or completed all requisite approvals, permits, registrations or filings for carrying on their respective business operations as required by the applicable PRC laws, regulations and rules;
- (c) the New Contractual Arrangements as a whole and each of the agreements comprising the New Contractual Arrangements are legal, valid and binding on the parties thereto, and do not, individually or collectively, constitute a breach of any PRC laws and regulations and will not be deemed invalid or ineffective under those laws and regulations; in particular, the New Contractual Arrangements do not violate the provisions of the Civil Code of the PRC including (i) the civil juristic acts by persons of civil conduct and counterparties under false manifestation of intent shall be null and void; (ii) the civil juristic acts that violate the mandatory provisions of laws and administrative regulations shall be null and void; (iii) any civil juristic act that violates public order and good morals shall be null and void; (iv) where a person colludes with his or her counterparty to perform a civil juristic act that impairs others' legitimate rights and interests, such act shall be null and void and other applicable PRC laws and regulations;
- (d) the variations in the No Spouse Undertaking as compared to the Spouse's Undertaking are only consequential changes as to ensure effective succession of the New Contractual Arrangements. Such variations will not deem the No Spouse Undertaking as well as the New Contractual Arrangements as a whole invalid or ineffective under any PRC laws and regulations;
- (e) the New Contractual Arrangements are in compliance with and enforceable under the applicable PRC laws and regulations, except for the enforceability of the injunctive relief and other temporary measures contained therein, which are on the same terms as those currently in place under the Existing Contractual Arrangements. For details on the enforceability of the injunctive relief and other temporary measures, please refer to the subsection headed "Contractual Arrangements – Legality of the Contractual Arrangements" of the Prospectus;
- (f) each of the agreements comprising the New Contractual Arrangements does not violate any provisions of the articles of association of Shijiazhuang Medical Research and Chengde Yushi;
- (g) the New Contractual Arrangements do not require any approvals from or registration with the PRC Government, except that the pledge under the New Equity Pledge Agreement will be further registered with the Administrative Examination and Approval Bureau of Longhua County* (隆化縣行政審批局) after it takes effect, and in the event that such registration remains pending, it would not affect the effectiveness and enforceability of the New Contractual Arrangements;

- (h) the New Contractual Arrangements do not violate the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》); and
- (i) there are no material changes in the PRC legislation on foreign investment in connection with the Relevant Businesses as set out in the sections headed “Regulatory Overview” and “Contractual Arrangements” of the Prospectus. Accordingly, the New Contractual Arrangements as a whole and each of the agreements comprising the New Contractual Arrangements will not be affected and will continue to be legal, valid, and binding on the parties.

Directors’ Views on the New Contractual Arrangements

As at the date of this announcement, the Group had not encountered any interference or encumbrance from any governing bodies regarding its plan to remain operating its businesses through Chengde Yushi under the New Contractual Arrangements.

In light of the advice of the PRC Legal Advisers above, our Directors are of the view that the New Contractual Arrangements are enforceable under the PRC laws and regulations, except for the enforceability of the injunctive relief and other temporary measures as mentioned in paragraph (e) under the section headed “Legality of the New Contractual Arrangements” in this announcement. Considering that the terms of the New Contractual Arrangements are substantially the same as in the Existing Contractual Arrangements and having discussed with the PRC Legal Advisers on the recent development in the relevant PRC laws and regulations, our Directors are of the view that there is no material change as to the type and extent of risks which the Group is exposed to relating to the New Contractual Arrangements as compared to the Existing Contractual Arrangements.

Our Directors are of the view that the entering into of the New Contractual Arrangements has no material adverse impact on the business, operation and financial condition of the Group and the New Contractual Arrangements offers adequate protection to the Group and its Shareholders as a whole.

As at the date of this announcement and to the best knowledge of the Company, no Director is a party to the New Contractual Arrangements and no Director (or his/her associates) has a material interest in the New Contractual Arrangements. Accordingly, no Director is required to abstain from voting on the board resolutions approving the entering into of the New Contractual Arrangements.

Our Directors (including the independent non-executive Directors) are of the view that (i) contractual arrangements under the New Contractual Arrangements will be entered into on substantially the same terms as those currently in place under the Existing Contractual Arrangements, except for the No Spouse Undertaking; (ii) the entering into of the New Contractual Arrangements are important to sustain the legal structure and business operations of the Group and has no material adverse impact on the business, operation and financial condition of the Group; (iii) transactions under the New Contractual Arrangements will be entered into in the ordinary and usual course of business of the Group, on normal commercial terms and be fair and reasonable and in the interests of the Company and its shareholders as a whole; and (iv) the financial results of Chengde Yushi shall remain being consolidated into the financial statements of the Company.

Accounting aspects of the New Contractual Arrangements

Pursuant to the Existing Contractual Arrangements, Chengde Yushi has been treated as a consolidated affiliated entity of the Company and its results of operations, assets and liabilities, and cash flows are consolidated into the Company's consolidated financial information as if it were a subsidiary of the Company.

In connection with the financial results of the Company after Ms. Sun obtains the Probate and the New Contractual Arrangements take effect, as concurred by the Auditor, pursuant to the New Contractual Arrangements, the Company obtains the right to exercise power to control Chengde Yushi through Shijiazhuang Medical Research and, under its sole discretion, can receive substantially all of the variable economic interest returns generated by Chengde Yushi through its involvement, accordingly, Chengde Yushi will remain being treated as a consolidated affiliated entity of the Company and its results of operations, assets and liabilities, and cash flows shall continue being consolidated into the Company's consolidated financial information as if it were a subsidiary of the Company.

Compliance with the New Contractual Arrangements

Our Group has adopted the following measures to ensure the effective operation of our Group with the implementation of the New Contractual Arrangements and our compliance with the New Contractual Arrangements:

- (a) major issues arising from the implementation and compliance with the New Contractual Arrangements or any regulatory enquiries from government authorities will be submitted to our Board, if necessary, for review and discussion on an occurrence basis;
- (b) our Board will review the overall performance of and compliance with the New Contractual Arrangements at least once a year;
- (c) our Company will disclose the overall performance and compliance with the New Contractual Arrangements in its annual reports and interim reports to update the Shareholders and potential investors;
- (d) our Company and our Directors undertake to provide periodic updates in our annual and interim reports regarding the qualification requirement and our status of compliance with the Foreign Investment Law; and
- (e) our Company will engage external legal advisors or other professional advisors, if necessary, to assist the Board to review the implementation of the New Contractual Arrangements and to deal with specific issues or matters arising from the New Contractual Arrangements.

LISTING RULES IMPLICATIONS

At the time of the Listing, the Stock Exchange has granted the IPO Waiver in connection with the continuing connected transactions of the Group in the form of the Existing Contractual Arrangements, subject to certain conditions as set out therein. As disclosed in the Prospectus, the Existing Contractual Arrangements may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new operating company engaging in the same business as that of the Group, without obtaining the approval of the Shareholders, on substantially the same terms and conditions as the Existing Contractual Arrangements. Since the New Contractual Arrangements are reproduced from the Existing Contractual Arrangements as provided under the conditions of the IPO Waiver except for the No Spouse Undertaking, the Company has sought confirmation from the Stock Exchange, and the Stock Exchange has confirmed, that the transactions contemplated under the New Contractual Arrangements would continue to fall within the scope of the IPO Waiver and are exempt from (i) the announcement, circular and independent Shareholders' approval requirements under Rule 14A.105 of the Listing Rules in respect of the Existing Contractual Arrangements; (ii) the requirement of setting an annual cap for the transactions under the Existing Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Existing Contractual Arrangements to three years or less under Rule 14A.52, for so long as the shares of the Company are listed on the Stock Exchange subject to certain conditions, details of which are set out in the section headed "Connected Transactions" of the Prospectus.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the meaning ascribed to them below:

"Auditor"	the auditor of the Company
"Board"	the board of Directors
"BVI"	British Virgin Islands
"BVI Legal Advisers"	Ms. Sun's legal advisers in BVI
"Chengde Yushi"	Chengde Yushi Jindan Pharmaceutical Co., Ltd. (承德御室金丹藥業有限公司), a company established in the PRC and controlled by the Company through a series of contractual arrangements
"Company"	Modern Chinese Medicine Group Co., Ltd. (現代中藥集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 15 January 2021, the shares of which are listed on the Stock Exchange
"continuing connected transaction(s)"	has the meaning ascribed to it under the Listing Rules

“Director(s)”	director(s) of the Company
“Equity Interest Successors”	collectively, Ms. Sun’s heirs, guardians, creditors, spouse or persons who may obtain the relevant equity interests or rights in the event of her death, loss of or restriction on capacity, bankruptcy, divorce or other circumstances that may affect the performance of the obligations under the New Contractual Arrangements
“Existing Contractual Arrangements”	the framework of contractual arrangements adopted by the Company as described in the Prospectus
“Existing Spouse’s Undertaking”	the spouse’s undertaking dated 14 February 2020 executed by Ms. Sun as the spouse of the registered shareholder of Chengde Yushi, namely, the late Mr. Xie
“Group”, “we”, or “our”	our Company, its subsidiaries and consolidated affiliated entities
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IPO Waiver”	the waiver granted by the Stock Exchange to the Company from strict compliance with (i) the announcement, circular and independent Shareholders’ approval requirements under Rule 14A.105 of the Listing Rules in respect of the Existing Contractual Arrangements; (ii) the requirement of setting an annual cap for the transactions under the Existing Contractual Arrangements under Rule 14A.53 of the Listing Rules; and (iii) the requirement of limiting the term of the Existing Contractual Arrangements to three years or less under Rule 14A.52, for so long as the shares of the Company are listed on the Stock Exchange subject to certain conditions, details of which are set out in the section headed “Connected Transactions” of the Prospectus
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange on 15 January 2022
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Modern Biotechnology”	Modern Biotechnology Group Holdings Co., Ltd (現代生物科技集團控股有限公司), a company incorporated in the BVI with limited liability and a controlling shareholder of the Company
“Mr. Xie”	Mr. Xie Wei (謝偉), the controlling shareholder of the Company, a former executive director of the Company and chairman of the board of Directors who passed away on 24 December 2021

“Ms. Sun”	Ms. Sun Xinlei (孫新磊), the widow of Mr. Xie
“New Contractual Arrangements”	collectively, (1) the New Exclusive Business Cooperation Agreement, (2) the New Exclusive Option Agreement, (3) the New Power of Attorney, (4) the New Equity Pledge Agreement, and (5) the No Spouse Undertaking, further details of which are set out in the section headed “Termination of the Existing Contractual Arrangements and Establishment of the New Contractual Arrangements” in this announcement
“New Equity Pledge Agreement”	new equity pledge agreement entered into by Chengde Yushi, Ms. Sun (as the sole registered shareholder) and Shijiazhuang Medical Research
“New Exclusive Business Cooperation Agreement”	new exclusive business cooperation agreement to be entered into by Chengde Yushi and Shijiazhuang Medical Research
“New Exclusive Option Agreement”	new exclusive option agreement to be entered into by Ms. Sun, as the new sole registered shareholder of Chengde Yushi, and Chengde Yushi
“New Power of Attorney”	new irrevocable power of attorney to be entered by Ms. Sun, Shijiazhuang Medical Research and Chengde Yushi
“New Registered Shareholder”	Ms. Sun, as the new registered shareholder of Chengde Yushi
“No Spouse Undertaking”	an irrevocable undertaking executed by Ms. Sun
“PRC”	the People’s Republic of China, excluding for the purpose of this announcement, Hong Kong, the Macau Special Administrative Region and Taiwan
“PRC Legal Advisers”	the Company’s legal advisers as to the laws of the PRC
“Probate”	the relevant court order authorising the applicant to administer Mr. Xie’s estate, according to the directions in Mr. Xie’s will
“Probate Registry”	the BVI High Court Probate Registry
“Prospectus”	the prospectus of the Company dated 31 December 2020
“Relevant Businesses”	the business of production of proprietary Chinese medicine, which involves the application of processing techniques for traditional Chinese medicine decoction pieces such as steaming, frying, simmering and calcining

“Registered Shareholder”	Mr. Xie, as the registered shareholder of Chengde Yushi
“RMB”, “Renminbi”	the lawful currency of PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shijiazhuang Medical Research”	Shijiazhuang Medical Research Advisory Company Limited (石家莊藥研諮詢有限公司), a wholly-owned subsidiary of the Company, Chengde Yushi and the sole registered shareholder of Chengde Yushi, namely, the late Mr. Xie
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

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

Hong Kong, 14 June 2023

As at the date of this announcement, the Board comprises three executive Directors, namely, Ms. Zhang Hongli, Mr. Li Jinglian and Mr. Jiang Zhendong; and three independent non-executive Directors, namely, Ms. Liu Ling, Mr. Leung Tsz Wing and Mr. Wong Chi Kin.