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If you are in any doubt about this circular or as to the action to be taken, you should consult your stockbroker, or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Modern Chinese Medicine Group Co., Ltd.**, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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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)

**MAJOR TRANSACTION
ENGINEERING CONTRACT**

Capitalised terms used in the lower portion of this cover page and the first page of this circular shall have the same respective meanings as those defined in the section headed “DEFINITIONS” of this circular.

A letter from the Board is set out on pages 3 to 7 of this circular. The Contract and the transaction contemplated thereunder have been approved by written shareholder’s approval obtained from Modern Biotechnology, a controlling Shareholder, pursuant to Rule 14.44 of the Listing Rules in lieu of a general meeting of the Company and this circular is being despatched to the Shareholders for information only.

29 December 2023

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Board”	the board of Directors
“Business Day”	a day (other than a Saturday, a Sunday and a public holiday) on which banks are generally open for business in Hong Kong
“BVI”	British Virgin Islands
“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
“Director(s)”	the director(s) of the Company
“Engineering Contract”	the construction agreement dated 3 November 2023 entered into between the Chengde Yushi and NPR Engineering (as contractor) in relation to the water supply and electrical engineering services for the expansion of Chengde Yushi’s pharmaceutical manufacturing building
“Group”	the Company and its subsidiaries
“GMP Certificate”	the certificate of good manufacturing practice
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third-Party”	a third party independent of, and not connected with, the Company and its connected person
“INED(s)”	the independent non-executive Director(s)

DEFINITIONS

“Latest Practicable Date”	28 December 2023, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange as amended, supplemented or otherwise modified 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
“NPR Engineering”	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
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the registered holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

In this circular, the terms “close associate(s)”, “core connected person(s)”, “controlling shareholder(s)”, “subsidiary/subsidiaries” and “substantial shareholder(s)” shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

Unless otherwise specified in this circular, translations of RMB into HK\$ are made in this circular, for illustration only, at the rate of RMB1.00 to HK\$1.12. No representation is made that any amounts in RMB or HK\$ could have been or could be converted at that rate or at any other rates or at all.

** For ease of reference, the names of the PRC established companies or entities have generally been included in this circular in both Chinese and English languages and in the event of inconsistency, the Chinese language shall prevail.*

LETTER FROM THE BOARD



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)

Executive Directors:

Ms. Sun Xinlei (*Chairman*)
Ms. Zhang Hongli (*Chief Executive Officer*)
Ms. Jia Yanru

Independent Non-executive Directors:

Ms. Liu Ling
Mr. Leung Tsz Wing
Mr. Wong Chi Kin

Registered office:

89 Nexus Way, Camana Bay
Grand Cayman
KY1-9009 Cayman Islands

Corporate headquarters

in the PRC:

No. 88 Jinwei Road, Chengde
City, Hebei Province, PRC

Principal place of business in

Hong Kong:

2404, 24th Floor
World-Wide House
19 Des Voeux Road Central
Central, Hong Kong

29 December 2023

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
ENGINEERING CONTRACT**

INTRODUCTION

Reference is made to the announcement of the Company dated 3 November 2023 in relation to the Engineering Contract. On 3 November 2023 (after trading hours), Chengde Yushi, a wholly-owned subsidiary of the Company, entered into the Engineering Contract with NPR Engineering, pursuant to which NPR Engineering agreed to provide water supply

LETTER FROM THE BOARD

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 RMB121 million located at Longhua County, Chengde City, Hebei Province, PRC.

THE ENGINEERING CONTRACT

Principal terms of the Engineering Contract are summarized below:

Date:	3 November 2023
Parties:	(1) Chengde Yushi (2) NPR Engineering (as contractor)
Subject matter:	NPR Engineering will act as the general contractor responsible for providing water supply and electrical engineering services on Chengde Yushi's pharmaceutical manufacturing building located at Longhua County, Chengde City, Hebei Province, PRC, with a total gross area of 3,500 m ² .
Work commencement date:	10 November 2023
Work period:	10 November 2023 to 31 December 2023
Consideration:	Approximately RMB121 million
Payment terms:	The parties adopted a milestone payment methodology. Up to 85% of the Consideration shall be paid upon satisfactory completion of the work; Up to 98% of the Consideration shall be paid upon satisfactory usage; and The balance shall be paid within 30 days upon expiry of the 10-day warranty period.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, NPR Engineering and its ultimate beneficial owner, namely Liu Fei (劉飛) are Independent Third-Parties.

LETTER FROM THE BOARD

Basis of the Consideration

The Consideration was arrived at from a tender process whereby invitation to bid for the engineering work within Chengde Yushi's pharmaceutical manufacturing building was solicited by NPR Engineering and the tender submitted by NPR Engineering was considered the most appropriate after taking into account the tender price and payment terms, as well as NPR Engineering's background, capacity, qualifications and experiences. Accordingly, the Directors consider that the Consideration is fair and reasonable.

The Consideration will be satisfied by the internal resources of the Group other than the proceeds raised under the listing of its Shares on the Stock Exchange on 15 January 2021 by way of global offering.

INFORMATION ON CHENGDE YUSHI

Chengde Yushi is a company established in the PRC and controlled by the Company through a series of contractual arrangements. The Group conducts its 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 through Chengde Yushi under a series of contractual arrangements entered into by Shijiazhuang Medical Research Advisory Company Limited (石家莊藥研諮詢有限公司), a wholly-owned subsidiary of the Company.

INFORMATION ON NPR ENGINEERING

NPR Engineering is a company incorporated in the PRC with limited liability and is principally engaging in power equipment, communication equipment, electronic components and devices, instrumentation, sales of automation control equipment, power transmission and distribution equipment, monitoring equipment, etc. and power engineering.

NPR Engineering is affiliated to Guoxin Changhe Group* (國信長和集團) and is an Independent Third Party. To the best knowledge of the Company after making reasonable enquiry to the Purchaser, the ultimate beneficial owner of NPR Engineering is Liu Fei (劉飛), an Independent Third Party.

REASONS FOR AND BENEFITS OF ENTERING INTO THE ENGINEERING CONTRACT

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.

As the Group's GMP Certificate will expire in May 2024, in order for the Group to meet the requirements and renew the GMP Certificate, the Group is required to make certain alternations. According to the new requirements of the GMP Certificate, the cleanliness of pharmaceutical factory production areas must reach D grade. Meanwhile, must also meet the

LETTER FROM THE BOARD

standards of the production environment, sanitation, temperature and humidity control, ventilation system and air quality of the Group's pharmaceutical factory must also meet the prescribed standard. With the development of the PRC in recent years, a more stringent requirement on fire protection and safety supervision has also been imposed by the PRC government. As a result, it is necessary for the Group to carry on renovation work.

After taking into account the tender price and payment terms as well as NPR Engineering's background, capacity, qualifications and experiences, the Group is of the view that NPR Engineering is the most suitable contractor and the Directors (including the independent non-executive directors) consider that the terms of the Engineering Contract and the transaction contemplated thereunder are fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

LISTING RULE IMPLICATIONS

As the highest applicable percentage ratio in respect of the Engineering Contract exceeds 25%, but less than 75%, the transaction contemplated under the Engineering Contract constitutes a major transaction of the Company pursuant to Rule 14.06(3) of the Listing Rules and is therefore subject to reporting, announcement, circular and Shareholders' approval requirement under Chapter 14 of the Listing Rules.

The Company has obtained written approval for the Engineering Contract in accordance with Rule 14.44 of the Listing Rules from Modern Biotechnology, a controlling Shareholder holding 75% of the total issued share capital of the Company as at the date of this circular. As such, since written approval has been obtained pursuant to Rule 14.44 of the Listing Rules, no extraordinary general meeting will be convened for the purpose of approving the Engineering Contract and the transaction contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for such approval.

RECOMMENDATIONS

The Directors (including the independent non-executive Directors) are of the opinion that the terms of the Engineering Contract and the transaction contemplated thereunder are on normal commercial terms which are made on an arm's length basis and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

The Company has obtained from Modern Biotechnology a written approval for the Engineering Contract and the transaction contemplated thereunder in lieu of holding a general meeting of the Company, and hence, no general meeting of the Company will be convened to approve the Engineering Contract and the transaction contemplated thereunder.

LETTER FROM THE BOARD

GENERAL

The translation into Chinese language of this circular is for reference only. In case of any inconsistency, the English text of this circular will prevail.

FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

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

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for the three years ended 31 December 2022 are disclosed in the following documents which are published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at <http://www.cdysjdyy.com/>.

- (a) Annual report of the Company for the financial year ended 31 December 2020
<https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0426/2021042600456.pdf>
- (b) Annual report of the Company for the financial year ended 31 December 2021
<https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0419/2022041901492.pdf>
- (c) Annual report of the Company for the financial year ended 31 December 2022
<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0426/2023042602817.pdf>
- (d) Interim report of the Company for the six months ended 30 June 2023
<https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0921/2023092100607.pdf>

2. INDEBTEDNESS STATEMENT

At the close of business on 3 November 2023, being the latest practicable date for the purpose of preparing this statement of indebtedness prior to the printing of this circular, the indebtedness of the Group was as follows:

Lease liabilities

The Group's lease liabilities amounted to approximately RMB72,000 as at 3 November 2023, comprised primarily of a lease of an office premise for its operation. The lease term is 36 months. As at 3 November 2023, the weighted average effective interest rate of the Group's lease liabilities was 4.8% per annum.

Contingent liabilities

As at the Latest Practicable Date, the Group had no contingent liabilities. The Group is currently not a party to any litigation that is likely to have a material adverse effect on its business, results of operations or financial condition taken as a whole. The Company confirms that there was no material change in its contingent liabilities since 3 November 2023 and up to the Latest Practicable Date.

Statement of Indebtedness

As at 3 November 2023, the Group did not have any other outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, leases liabilities or leases commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits, guarantees or any material contingent liabilities.

The Company confirms that there were no material changes in the indebtedness of the Group since 3 November 2023 and up to the Latest Practicable Date.

Disclaimer

Save as aforesaid and apart from intra-group liabilities and normal trade and other payables in the ordinary course of business, at the close of business on 3 November 2023, the Group did not have any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into consideration the financial resources available to the Group, including its internally generated cash, and in the absence of unforeseeable circumstances, the Directors confirm that the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

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. There is no change in the Group's activities since 31 December 2022, being the date on which the latest published audited consolidated financial statement of the Group were made up, and it is not expected to be any change to the Group's principal business as a result of the Engineering Contract.

As disclosed in the section headed "REASONS FOR AND BENEFITS OF ENTERING INTO THE ENGINEERING CONTRACT", given that the Group's GMP Certificate will expire in May 2024, the Group is required to make certain alternations of its manufacturing building in accordance with the new requirement in order for it to renew the GMP Certificate. As a result, it is necessary for the Group to carry on renovation work.

Upon completion of the renovation work under the Engineering Contract, it is expected that the Group's production will become more efficiency and the renovation work will allow the Group to manufacture better quality of products. Alongside the support for the

development of TCM during the “14th Five-Year Plan” period, the Group will exploit the favorable government policies and further promote product diversification through continuous innovation and research and development. The Group will also coordinate online and offline product marketing strategies to create more value for the Shareholders.

5. FINANCIAL EFFECT OF THE ENGINEERING CONTRACT

As a result of the Engineering Contract, the property, plant and equipment of the Group will be increased by approximately RMB121 million and the bank balances and cash of the Group will be decreased by approximately RMB121 million. The overall effects of the Engineering Contract on future earnings of the Group will depend on the return to be generated from the operation of the renovated water supply and electrical facilities in Chengde Yushi’s pharmaceutical manufacturing building after taking into consideration the addition in annual depreciation of approximately RMB5.9 million.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at the Latest Practicable Date, the interests and short positions of the Directors or chief executive of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), were as follows:

(a) Interest in Shares

Name of Director	Nature of Interest	Number and class of Shares/underlying Shares	Approximate percentage of shareholding (Note 2)
Sun Xinlei ("Ms. Sun") (Note 1)	Interest of a controlled corporation	450,000,000 (Long Position)	75%

Notes:

- (1) These Shares are held by Modern Biotechnology, which is a company incorporated in the BVI. As the entire issued share capital of Modern Biotechnology is owned by Ms. Sun, she is deemed to be interested in all the Shares held by Modern Biotechnology under the SFO.
- (2) As at the Latest Practicable Date, there were 600,000,000 Shares in issue.

(b) Interests in the shares of associated corporations

Name of Director	Name of associated corporation	Number of Shares	Approximate percentage of shareholding (Note 2)
Ms. Sun	Chengde Yushi (Note 1)	N/A (Note 2)	100%

Notes:

- (1) Chengde Yushi is a limited liability company established in the PRC. It is regarded as an indirect wholly-owned subsidiary of the Group by virtue of the contractual arrangements entered into with the Group.
- (2) The percentage of shareholding is determined with reference to the percentage of subscribed registered capital of the shareholder.

3. SUBSTANTIAL SHAREHOLDERS' INTEREST IN SECURITIES

As at the Latest Practicable Date, to the best knowledge of the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Name	Capacity/Nature of Interest	Number and class of Shares/underlying Shares	Approximate percentage of shareholding as at the Latest Practicable Date ^(note)
Modern Biotechnology	Beneficial owner	450,000,000 (Long Position)	75%

Note:

As at the Latest Practicable Date, there were 600,000,000 Shares in issue.

4. LITIGATION

As at the Latest Practicable Date, no member of the Group was involved in any litigation or claims of material importance nor was any litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

5. MATERIAL ADVERSE CHANGE

As of the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2022, being the date to which the latest published audited financial statements of the Group were made up.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had a service contract with the Company which was not determinable by the Company within one year without payment of compensation, other than statutory compensation.

7. MATERIAL CONTRACTS

Save as disclosed below, no member of the Group has entered into any contracts, not being contracts entered into in the ordinary course of business, within the two years immediately preceding the date of this circular, and are or may be material:

- (a) the Engineering Contract;
- (b) the new exclusive business cooperation agreement dated 4 July 2023 entered into between Chengde Yushi and Shijiazhuang Medical Research for the new framework of contractual arrangements adopted by the Company;
- (c) the new irrevocable power of attorney dated 4 July 2023 executed by Ms. Sun Xinlei, Shijiazhuang Medical Research and Chengde Yushi for the new framework of contractual arrangements adopted by the Company; and
- (d) the new equity pledge agreement dated 4 July 2023 entered into by Chengde Yushi, Ms. Sun Xinlei (as the sole registered shareholder of Chengde Yushi) and Shijiazhuang Medical Research for the new framework of contractual arrangements adopted by the Company.

8. EXPERT AND CONSENT

The following expert has been named in this circular or has given opinion or advice which are contained in this circular:

Name	Qualification
Mazars CPA Limited	Certified Public Accountants

As at the Latest Practicable Date, the above expert:

- (a) has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or report (as the case may be) and references to its names, in the form and context in which they respectively appear;
- (b) did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares, convertible securities, warrants, options or derivatives, which carry voting rights in any member of the Group; or
- (c) did not have any interest, either directly or indirectly, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 December 2022), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

9. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or any of their respective associates have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

10. DIRECTORS' INTERESTS

As at the Latest Practicable Date, there had been no transactions, arrangements and contracts of significance since 31 December 2022 (being the date to which the latest published audited financial statements of the Group were made up) in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company or his or her connected entities had a material interest, whether directly or indirectly.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had since 31 December 2022 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<https://www.cdysjdy.com>) for the period of 14 days from the date of this circular:

- (a) the Engineering Contract; and

- (b) the letters of consent from the expert referred to in paragraph 8 in this appendix.

12. MISCELLANEOUS

- (a) The registered office of the Company is situated at 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands.
- (b) The corporate headquarters in the PRC is situated at No. 88 Jinwei Road, Chengde City, Hebei Province, the PRC.
- (c) The principal place of business in Hong Kong is situated at Room 2404, 24th Floor, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong.
- (d) The principal share registrar and transfer office of the Company is Ogier Global (Cayman) Limited, 89 Nexus Way, Camana Bay, Grand Cayman, KY1-9009, Cayman Islands.
- (e) The share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited, 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (f) The joint secretary of the Company are Ms. Chan Tsz Hei Sammi, who is a practising solicitor of Hong Kong and Ms. Jia Yanru, who is an executive Director. Ms. Jia graduated from the Northeast Normal University (東北師範大學), the Mainland China with a Higher Education Graduation Certificate (major in accounting) (高等教育畢業證書(會計專業)).
- (g) In the event of any inconsistency, the English texts of this circular shall prevail over their respective Chinese texts.