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康臣葯業集團有限公司
CONSUN PHARMACEUTICAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1681)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2017 amounted to RMB769,356,000, representing an increase of approximately 70.3% as compared with the six months ended 30 June 2016.
- Profit attributable to equity shareholders of the Company for the six months ended 30 June 2017 amounted to RMB184,816,000, representing an increase of approximately 27.1% as compared with the six months ended 30 June 2016.
- Basic and diluted earnings per share for the six months ended 30 June 2017 amounted to RMB0.2052, representing an increase of approximately 36.2% as compared with the six months ended 30 June 2016.
- The Board has declared the payment of an interim dividend of HKD0.096 per share for the six months ended 30 June 2017.

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Consun Pharmaceutical Group Limited (the “**Company**”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2017 (the “**Interim Results**”). The audit committee of the Company (the “**Audit Committee**”) and the Group’s external auditor have reviewed the Interim Results.

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

For the six months ended 30 June 2017 – unaudited

(Expressed in Renminbi)

		For the six months ended 30 June	
	<i>Note</i>	2017 RMB'000	2016 RMB'000
Revenue	3(a)/5	769,356	451,852
Cost of sales		(187,154)	(95,048)
Gross profit	3(a)	582,202	356,804
Other income	6	14,981	2,612
Distribution costs		(244,526)	(136,271)
Administrative expenses		(80,183)	(48,872)
Profit from operation		272,474	174,273
Finance costs	7	(3,479)	–
Share of profit of an associate		–	3,865
Profit before taxation	3(b)/7	268,995	178,138
Income tax	8	(69,979)	(32,741)
Profit for the period		199,016	145,397
Attributable to:			
– Equity shareholders of the Company		184,816	145,397
– Non-controlling interests		14,200	–
Profit for the period		199,016	145,397
Earnings per share (RMB yuan)			
– Basic	9	0.2052	0.1507
– Diluted	9	0.2052	0.1507
Profit for the period		199,016	145,397
Other comprehensive income for the period that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC"), net of tax		(31)	214
Total comprehensive income for the period		198,985	145,611
Attributable to:			
– Equity shareholders of the Company		184,785	145,611
– Non-controlling interests		14,200	–
Total comprehensive income for the period		198,985	145,611

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – unaudited

(Expressed in Renminbi)

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
	<i>Note</i>	
Non-current assets		
Investment property	10	18,214
Other property, plant and equipment	10	391,612
Lease prepayments	10	134,343
Intangible assets	10	474,922
Goodwill		320,647
Other investment		2,600
Other prepayment	10	–
Deferred tax assets		24,140
		<hr/>
Total non-current assets		1,366,478
		<hr/>
Current assets		
Inventories	11	222,125
Trade and other receivables	12	773,122
Cash and cash equivalents	13	661,224
		<hr/>
Total current assets		1,656,471
		<hr/>
Current liabilities		
Trade and other payables	14	569,501
Loans and borrowings	15	104,302
Deferred income		1,346
Current tax payables		65,409
		<hr/>
Total current liabilities		740,558
		<hr/>
Net current assets		915,913
		<hr/>
Total assets less current liabilities		2,282,391
		<hr/>
Non-current liabilities		
Loans and borrowings	15	461,733
Deferred income		22,178
Deferred tax liabilities		144,618
		<hr/>
Total non-current liabilities		628,529
		<hr/>
NET ASSETS		1,653,862
		<hr/>
Capital and reserves		
Share capital	17(b)	64,801
Reserves		1,282,979
		<hr/>
Total equity attributable to equity shareholders of the Company		1,347,780
Non-controlling interests		306,082
		<hr/>
TOTAL EQUITY		1,653,862
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NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

1 BASIS OF PREPARATION

The unaudited interim financial information was extracted from the interim financial report of the Group for the six months ended 30 June 2017.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“**HKAS**”) 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). It was authorised for issue on 24 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of the changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”).

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial information.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 SEGMENT REPORTING

The Group manages its businesses by production lines. In a manner consistent with the way in which information is reported internally to the Group’s most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments.

- Consun Pharmaceutical Segment: this segment manufactures and sells modern Chinese medicines and medical contrast medium.
- Yulin Pharmaceutical Segment: this segment manufactures and sells traditional Chinese medicines.

(a) **Information about profit or loss, assets and liabilities**

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, other than reporting inter-segment sales of pharmaceutical products, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is gross profit. The Group's senior executive management is provided with segment information concerning segment revenue and gross profit. Segment assets and liabilities are not reported to the Group's senior executive management regularly.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2017 and 2016 is set out below.

	Consun Pharmaceutical Segment		Yulin Pharmaceutical Segment		Total	
	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
For the six months ended 30 June						
Reportable segment revenue						
Revenue from external customers	<u>505,657</u>	<u>451,852</u>	<u>263,699</u>	<u>–</u>	<u>769,356</u>	<u>451,852</u>
Reportable segment profit						
Gross profit	<u>404,001</u>	<u>356,804</u>	<u>178,201</u>	<u>–</u>	<u>582,202</u>	<u>356,804</u>

(b) **Reconciliations of reportable segment profit**

	For the six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Reportable segment gross profit derived from the Group's external customers	<u>582,202</u>	356,804
Other income	<u>14,981</u>	2,612
Distribution costs	<u>(244,526)</u>	(136,271)
Administrative expenses	<u>(80,183)</u>	(48,872)
Finance costs	<u>(3,479)</u>	–
Share of profit of an associate	<u>–</u>	3,865
Consolidated profit before taxation	<u>268,995</u>	<u>178,138</u>

4 SEASONALITY OF OPERATIONS

The Group generally experiences on average over 50% higher revenue in the fourth quarter as compared with other quarters in the year, because more sales of pharmaceutical products are made to distributors in the fourth quarter of the year prior to the new year holiday. The Group satisfies this higher demand by increasing its production so as to build up inventories during the second half of the year.

For the twelve months ended 30 June 2017, the Group reported revenue of RMB1,540,992,000 (twelve months ended 30 June 2016: RMB895,682,000), and gross profit of RMB1,136,421,000 (twelve months ended 30 June 2016: RMB716,496,000). Guangxi Yulin Pharmaceutical Group Co., Ltd. (“**Yulin Pharmaceutical**”) and its subsidiaries (collectively referred to as “**Yulin Pharmaceutical Group**”) became subsidiaries of the Group on 19 July 2016, therefore, revenue and gross profit of Yulin Pharmaceutical Group from 19 July 2016 to 30 June 2017 amounting to RMB541,047,000 and RMB340,426,000 respectively were included in the Group’s revenue and gross profit for the twelve months ended 30 June 2017.

5 REVENUE

The principal activities of the Group are manufacturing and sales of pharmaceuticals.

6 OTHER INCOME

	For the six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants		
– Unconditional subsidies	5,892	747
– Conditional subsidies	973	218
Interest income	1,871	1,483
Loss on disposal of property, plant and equipment	(128)	(687)
Net exchange gains	6,310	–
Others	63	851
	<u>14,981</u>	<u>2,612</u>

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs:

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interest expenses on bank loans	<u>3,479</u>	<u>–</u>

(b) Staff costs:

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Salaries, wages, bonuses and benefits	118,489	71,084
Contribution to retirement schemes	4,326	2,387
Equity settled share-based payments:		
Share Option Scheme (note 16(a))	14,908	2,170
Share Award Scheme (note 16(b))	–	604
	<u>137,723</u>	<u>76,245</u>

(c) Other items:

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Depreciation		
– Investment property	338	–
– Other property, plant and equipment	16,393	8,324
Amortisation		
– Lease prepayments	1,539	313
– Intangible assets	14,707	–
Impairment losses (reversed)/recognised for doubtful debts	(519)	138
Operating lease charges	1,499	972
Research and development costs [#]	10,431	5,942
Cost of inventories [*]	<u>187,154</u>	<u>95,048</u>

[#] During the six months ended 30 June 2017, research and development costs include RMB4,649,000 (six months ended 30 June 2016: RMB2,869,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

^{*} During the six months ended 30 June 2017, cost of inventories include RMB54,944,000 (six months ended 30 June 2016: RMB15,865,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

8 INCOME TAX

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current tax		
Provision for PRC income tax	60,837	35,348
Deferred tax		
Origination and reversal of temporary differences	9,142	(2,607)
	69,979	32,741

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No provision was made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax for six months ended 30 June 2017 (six months ended 30 June 2016: nil).
- (iii) Taxable income for the subsidiaries of the Company in the PRC is subject to PRC income tax rate of 25%, unless otherwise specified below.

Consun Pharmaceutical (Inner Mongolia) Co., Ltd. (“**Inner Mongolia Consun**”) was qualified as an “Advanced and New Technology Enterprise”, thus Inner Mongolia Consun was entitled to the preferential income tax rate of 15% from 2015 to 2017.

Guangzhou Consun Pharmaceutical Company Limited (“**Guangzhou Consun**”) was qualified as an “Advanced and New Technology Enterprise” and was entitled to the preferential income tax rate of 15% from 2014 to 2016. Guangzhou Consun is applying for the extension of “Advanced and New Technology Enterprise” qualification and the entitlement of the preferential income tax rate for 2017 to 2019. In the opinion of Directors, they do not foresee any difficulties to obtain an approval of the preferential income tax rate for 2017 to 2019. Therefore, the PRC income tax rate applicable to Guangzhou Consun was 15% for the six months ended 30 June 2017 (six months ended 30 June 2016: 15%).

Yulin Pharmaceutical and Guangxi Yulin Pharmaceutical Capsule Co., Limited (“**Yulin Capsule**”) were qualified as encouraged industry that operates in western China. Yulin Pharmaceutical and Yulin Capsule were entitled to the preferential income tax rate of 15% from 2011 to 2020.

Guangxi Yulin Pharmaceutical Group Yuming Chinese Traditional Medicine Co., Limited (“**Yuming Chinese Traditional Medicine**”), Guangxi Yulin Pharmaceutical Group Hongsheng Trading Co., Limited (“**Hongsheng Trading**”) and Guangxi Yulin Yunxiang Real Estate Co., Limited (“**Yunxiang Real Estate**”) met the criteria for preferential income tax rate granted to small and low profit-making enterprises in the PRC, and were entitled to the preferential income tax rate of 10% in 2017.

Guangxi Yulin Pharmaceutical Group Yonglv Chinese Traditional Medicine Industry Co., Limited (“**Yonglv Chinese Traditional Medicine**”) met the exemption criteria on income generated through planting of agricultural products and was exempted from income tax in 2017.

- (iv) According to the relevant tax law and its implementation rules, dividends receivable by non-PRC-resident corporate investors from PRC-resident enterprises are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. The Group has adopted withholding tax at 10% for PRC withholding tax purposes.

At 30 June 2017, deferred tax liabilities of RMB58,003,000 (31 December 2016: RMB40,850,000) have been provided based on the expected dividends to be distributed from Guangzhou Consun to the Company in the foreseeable future in respect of the profits generated since 1 January 2008. The Company has not provided for the related deferred tax liabilities on the undistributed earnings of the PRC subsidiaries totaling RMB82,035,800 as at 30 June 2017 (31 December 2016: RMB77,997,500).

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB184,816,000 (six months ended 30 June 2016: RMB145,397,000) and the weighted average number of 900,474,000 ordinary shares (six months ended 30 June 2016: 964,652,000 shares) in issue during the interim period.

	For the six months ended 30 June	
	2017 '000 shares	2016 '000 shares
Issued ordinary shares at 1 January	974,268	997,757
Effect of shares held under the Share Award Scheme	(19,698)	(20,000)
Effect of shares repurchased and cancelled	(54,096)	(13,105)
	<u>900,474</u>	<u>964,652</u>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB184,816,000 (six months ended 30 June 2016: RMB145,397,000) and the weighted average number of ordinary shares of 900,474,000 (six months ended 30 June 2016: 964,964,000 shares).

	For the six months ended 30 June	
	2017 '000 shares	2016 '000 shares
Weighted average number of ordinary shares	900,474	964,652
Effect of Awarded Shares under the Share Award Scheme	–	312
	<u>900,474</u>	<u>964,964</u>

For the periods ended 30 June 2017 and 2016, the effect of the Company's Share Option Scheme was anti-dilutive.

10 INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT, LEASE PREPAYMENTS, INTANGIBLE ASSETS AND OTHER PREPAYMENT

(a) Acquisitions

During the six months ended 30 June 2017, the Group acquired items of property, plant and machinery with a cost of RMB15,444,000 (six months ended 30 June 2016: RMB4,919,000), and acquired lease prepayments with a cost of RMB49,877,000 (six months ended 30 June 2016: nil), among which RMB40,400,000 were prepaid as at 31 December 2016.

(b) Intangible assets

Intangible assets represent trademark with a carrying amount of RMB256,233,000 (31 December 2016: RMB256,233,000) and patents with a carrying amount of RMB218,689,000 (31 December 2016: RMB233,396,000).

(c) Valuation of investment properties

Investment properties of the Group were stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. The carrying amounts of the investment properties were not materially different from their fair value as at 30 June 2017 and 31 December 2016.

11 INVENTORIES

	At 30 June 2017 <i>RMB'000</i>	At 31 December 2016 <i>RMB'000</i>
Raw materials	99,661	70,669
Work in progress	85,833	42,891
Finished goods	36,631	27,414
	<u>222,125</u>	<u>140,974</u>

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	For the six months ended 30 June 2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Cost of inventories sold	186,950	94,971
Write-down of inventories	204	77
	<u>187,154</u>	<u>95,048</u>

12 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the aging analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts is as follows:

	At 30 June 2017 <i>RMB'000</i>	At 31 December 2016 <i>RMB'000</i>
Within 3 months	690,911	512,413
3 to 12 months	27,767	29,153
Over 12 months	715	15,709
Trade debtors and bills receivable, net of allowance for doubtful debts (<i>note 12(a)</i>)	719,393	557,275
Other receivables, prepayments and deposits (<i>note 12(b)</i>)	53,729	19,045
	773,122	576,320

(a) Trade debtors and bills receivable, net of allowance for doubtful debts

Trade debtors and bills receivable are generally due within 30 to 90 days from the date of billing. Debtors with balances that are more than 12 months past due are requested to settle all outstanding balances before any further credit is granted.

As at 30 June 2017, the Group's trade debtors of RMB3,438,000 (31 December 2016: RMB7,548,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowance for doubtful debts of RMB3,046,000 (31 December 2016: RMB3,565,000) was recognized.

(b) Other receivables, prepayments and deposits

Prepayment for loan facility fees amounted to RMB11,822,000 (31 December 2016: nil) in connection with the three-year term loan (note 15) was included in other receivables, prepayments and deposits, of which RMB6,704,000 is expected to be recognised as expenses after more than one year, and the remaining of RMB5,118,000 is expected to be recognised as expenses within one year.

13 CASH AND CASH EQUIVALENTS

	At 30 June 2017 <i>RMB'000</i>	At 31 December 2016 <i>RMB'000</i>
Cash at bank and on hand	661,224	672,711

14 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the aging analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2017 <i>RMB'000</i>	At 31 December 2016 <i>RMB'000</i>
Within 1 month	43,063	39,085
1 to 12 months	53,126	40,341
Over 12 months	106	307
	<hr/>	<hr/>
Total trade payable	96,295	79,733
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Receipts in advance	2,012	10,368
Accrued expenses	245,360	169,810
Employee benefits payable	63,815	67,572
Other payables	162,019	155,769
	<hr/>	<hr/>
	569,501	483,252
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

15 LOANS AND BORROWINGS

As of the end of the reporting period, loans and borrowings were unsecured bank loans and were repayable as follows:

	At 30 June 2017 <i>RMB'000</i>	At 31 December 2016 <i>RMB'000</i>
Within 1 year	104,302	–
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
After 1 year but within 2 years	97,207	–
After 2 years but within 3 years	364,526	–
	<hr/>	<hr/>
	461,733	–
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	566,035	–
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

A three-year term loan which amounted to HKD560,000,000 (equivalent to RMB486,035,000) was included in loans and borrowings and is interest-bearing at 2.00% per annum over the relevant HIBOR.

As at 30 June 2017, the three-year term loan is subject to the fulfilment of covenants relating to certain of the Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down loan would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2017, none of the covenants relating to drawn down loan had been breached (31 December 2016: nil).

16 EQUITY SETTLED SHARE-BASED PAYMENTS

(a) Employees' Share Option Scheme

In 2014, the Company granted 60,000,000 share options to certain Directors and employees at a consideration of HKD1 for each grantee (the “**2014 Grant**”). The exercise price of these share options was HKD6.64 per share, and the aggregate fair value of these share options amounted to RMB138,095,000. The options vest after one year to five years from the date of grant and are then exercisable on or before 23 March 2024.

In 2016, an aggregate of 24,790,000 unvested share options under the 2014 Grant were cancelled (the “**Cancelled Share Options**”), among which 9,200,000 and 15,590,000 unvested share options were previously granted to Directors and employees, respectively, with remaining vesting period ranging from one year to three years.

In 2016, the Company granted 52,000,000 share options to certain Directors and employees (the “**2016 Grant**”). The exercise price of these share options was HKD4.01 per share, and the aggregate fair value of these share options amounted to RMB81,168,000. The options vest after one year to three years from the date of grant and are then exercisable on or before 31 March 2026.

The number and weighted average exercise prices of share options are as follows:

	Six months ended 30 June 2017	
	Weighted average exercise price HKD	Number of options '000
Outstanding at 1 January 2017	4.82	71,423
Forfeited during the period	4.45	(4,880)
	<hr/>	<hr/>
Outstanding at 30 June 2017	4.85	66,543
	<hr/>	<hr/>
Exercisable at 30 June 2017	5.71	31,442
	<hr/> <hr/>	<hr/> <hr/>

The share options outstanding at 30 June 2017 had an exercise price of HKD6.64 or HKD4.01 (31 December 2016: HKD6.64 or HKD4.01) and a weighted-average remaining contractual life of 8.1 years (31 December 2016: 8.6 years). No options were exercised during the six months ended 30 June 2017 (2016: nil).

The Group recognised share option expenses of RMB14,908,000 during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB2,170,000).

(b) Employees' Share Award Scheme

On 21 July 2014, the Board of Directors of the Company approved the adoption of a share award scheme (the “**Share Award Scheme**”) under which shares of the Company (the “**Awarded Shares**”) may be awarded to selected employees in accordance with the provisions of the Share Award Scheme and the nominal value of the shares awarded under the Share Award Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

Unless terminated earlier by the Board of Directors in accordance with the rules of the Share Award Scheme, the Share Award Scheme will be valid and effective for a term of 10 years starting on 21 July 2014. A trust has been set up and fully funded by the Company for the purpose of purchasing, administrating and holding the Company's shares for the Share Award Scheme.

When a Selected Employee has satisfied all vesting conditions, which might include service and/or performance conditions, specified by the Board of Directors of the Company at the time of making the award and become entitled to the shares of the Company forming the subject of the award, the trustee shall transfer the relevant Awarded Shares to that employee at no cost. The selected employee however is not entitled to receive any income or distribution, such as dividend derived from the unvested Awarded Shares allocated to him/her.

The Awarded Shares granted under the Share Award Scheme on 7 May 2015 were forfeited or vested by the end of 31 December 2016. Therefore, there's no share award expenses recognised during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB604,000).

Details of the Awarded Shares vested under the Share Award Scheme as at 30 June 2017 are set out below:

	Number of Awarded Shares Vested '000
At 30 June 2017 and 31 December 2016	<u><u>302</u></u>

Details of the treasury shares held under the Share Award Scheme are set out below:

	Average purchase price HKD	No. of shares held '000	Value of shares	
			<i>HKD'000</i>	<i>RMB'000</i>
At 30 June 2017 and 31 December 2016	5.68	<u><u>19,698</u></u>	<u><u>111,854</u></u>	<u><u>88,642</u></u>

At 30 June 2017, 19,803,000 ordinary shares were held by the trustee under the Share Award Scheme (31 December 2016: 20,000,000 shares), among which 19,698,000 shares were held on behalf of the Company (31 December 2016: 19,698,000 shares), while the remaining 105,000 shares were held on behalf of certain employees (31 December 2016: 302,000).

17 CAPITAL, RESERVE AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders attributable to the interim period

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interim dividend declared after the interim period of HKD0.096 per share (six months ended 30 June 2016: RMB0.045)	66,059	42,942

The interim dividend had not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	For the six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Final dividends in respect of the previous financial year, approved and paid during the interim period ended 30 June 2017 of HKD0.05 per share (six months ended 30 June 2016: RMB0.075)	36,599	74,119
Less: Dividends for treasury shares held by the Company	(875)	(2,549)
	*35,724	71,570
Special dividend approved and paid during the interim period ended 30 June 2017 of HKD0.1 per ordinary share (six months ended 30 June 2016: nil)	73,198	–
Less: Dividends for treasury shares held by the Company	(1,750)	–
	*71,448	–
	107,172	71,570

* The Company paid final dividends of RMB35,724,000 for the year ended 31 December 2016 and special dividends of RMB71,448,000 as adjusted to exclude the dividends for treasury shares held under the Company's Share Award Scheme.

(b) Share capital

Ordinary shares, issued and fully paid

	For the six months ended 30 June 2017		
	Number of shares '000	Nominal value of fully paid shares HKD'000	Nominal value of fully paid shares RMB'000
At 1 January 2017	974,268	97,427	76,237
Cancellation of shares during the period	(146,140)	(14,614)	(11,436)
As at 30 June 2017	<u>828,128</u>	<u>82,813</u>	<u>64,801</u>

On 6 February 2017, the Company entered into a share buy-back agreement with First Kind International Limited pursuant to which the Company agreed to buy back 146,140,200 shares (the “**Buy-back Shares**”) at a total consideration of approximately HKD560,740,000 (equivalent to approximately RMB495,246,000), equivalent to HKD3.837 per each Buy-back Share and the Buy-back Shares would be cancelled in full (the “**Share Buy-back**”). On 11 April 2017, the Share Buy-back was approved in the extraordinary general meeting of the Company. On 24 April 2017, the Buy-back Shares were repurchased by the Group and were subsequently cancelled in full on 2 May 2017. Transaction costs of RMB10,470,000 which were directly attributable to the Share Buy-back were accounted for as deduction from equity.

18 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Contracted for	21,476	20,989
Authorised but not contracted for	<u>1,264</u>	<u>4,682</u>
Total	<u>22,740</u>	<u>25,671</u>

19 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

	Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Salaries and other benefits	12,909	11,726
Retirement scheme of defined contribution	48	46
Equity settled share-based payment expenses	<u>4,130</u>	<u>4,873</u>
	<u>17,087</u>	<u>16,645</u>

Total remuneration is included in “staff costs” (see note 7(b)).

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the unaudited interim financial report of the Group. The interim financial report of the Group has been prepared in accordance with HKAS 34, *Interim Financial Reporting*.

BUSINESS AND FINANCIAL REVIEW

Revenue

By developing the market intensively, the Group has kept sales on a robust growth trend and revenue of RMB769,356,000 was recorded for the six months ended 30 June 2017, representing an increase of 70.3% as compared with the same period last year. Categorized by product lines, sales of kidney medicines recorded an increase of 10.1% as compared with the same period last year, among which, Uremic Clearance Granules (“UCG”) remained the growth driver of the Group’s sales and maintained its leading position in terms of oral modern Chinese medicines for kidney diseases; sales of medical contrast medium recorded a decrease of 11.2% as compared with the same period last year, still maintained a leading position in the domestic medical contrast medium market for magnetic resonance imaging. Sales of other medicines recorded a significant increase of 792.7% as compared with last year, which was mainly attributable to the increase in sales of women and children products and the consolidation of product sales of Yulin Pharmaceutical Group.

Particularly worth mentioning that, during the first half of 2017, Yulin Pharmaceutical Group (which became subsidiaries of the Group since July 2016), achieved a half-year revenue of RMB263,699,000, representing an increase of 25.5% as compare with the same period last year (while Yulin Pharmaceutical Group were associated companies of the Group).

Gross Profit and Gross Profit Margin

For the first half of 2017, the Group’s gross profit was RMB582,202,000, representing an increase of 63.2% as compared with RMB356,804,000 of the same period of 2016. The increase in gross profit was mainly attributable to the increase in sales. For the first half of 2017, the Group’s average gross profit margin was 75.7%, representing a decrease of 3.3% as compared with the 79.0% for the same period of 2016, which was mainly attributable to the increase in sales proportion of other medicines, whereas their average gross profit margin is smaller than kidney medicines and medical contrast medium.

Other Income

For the first half of 2017, the Group’s other revenue was RMB14,981,000 which mainly included government grants, interest income and exchange gains. Compared with the RMB2,612,000 for the same period of 2016, the increase in other revenue was mainly due to the increase in government grants obtained, and the exchange gain in connection with the three-year HKD term loan arising from the appreciation of RMB.

Distribution Costs

For the first half of 2017, the Group's distribution costs were RMB244,526,000, representing an increase of 79.4% as compared with the RMB136,271,000 for the same period of 2016, which was mainly attributable to the Group's expansion of marketing and distribution networks by recruiting additional marketing staff and increasing marketing and academic promotion activities during the period and the consolidation of Yulin Pharmaceutical Group's distribution costs.

Administrative Expenses

For the first half of 2017, the Group's administrative expenses were RMB80,183,000, representing an increase of 64.1% as compared with the RMB48,872,000 for the same period of 2016, which was mainly due to the consolidation of administrative expenses of Yulin Pharmaceutical Group.

Finance Costs

During the first half of 2017, the Group's finance costs were RMB3,479,000, which were mainly arising from the three-year term loan in connection with the Share Buy-back. During the first half of 2016, the Group did not have any borrowings and therefore, no finance costs were incurred by the Group for the same period last year.

Income Tax

For the first half of 2017, the Group's income tax expenses were RMB69,979,000, representing an increase of 113.7% as compared with the RMB32,741,000 for the same period of 2016. The effective tax rate (income tax expenses divided by profit before taxation) increased by 7.6% from 18.4% for the first half of 2016 to 26.0% for the first half of 2017. The increase was mainly attributable to the increase in provision for withholding tax based on the expected dividends to be distributed by the Group's PRC subsidiaries to the Company in the foreseeable future for repayment of the three-year term loan in connection with the Share Buy-back and the relevant interest.

Profit for the Period and Earnings Per Share

The Group's profit for the first half of 2017 was RMB184,816,000, representing an increase of 27.1% as compared with the RMB145,397,000 for the same period of 2016. The earnings per share (basic and diluted) increased by 36.2% from RMB0.1507 for the first half of 2016 to RMB0.2052 for the first half of 2017.

LIQUIDITY AND FINANCIAL RESOURCES

Trade Debtors and Bills Receivable

As at 30 June 2017, the balance of trade debtors and bills receivable was RMB719,393,000, representing an increase of 29.1%, as compared with the balance of RMB557,275,000 as at 31 December 2016. The trade receivable turnover days in the first half of 2017 were 149.4 days, representing an increase of approximately 12.0 days from 137.4 days in 2016. It was mainly due to the consolidation of Yulin Pharmaceutical Group's operations and the Group granted longer credit period to certain strategic customers with good credit standing based on the market situation during the period.

Inventories

As at 30 June 2017, the balance of inventories was RMB222,125,000, representing an increase of 57.6% as compared with the balance of RMB140,974,000 as at 31 December 2016. The Group's inventory turnover days in the first half of 2017 were 174.6 days, representing an increase of 50.8 days from approximately 123.8 days in 2016. It was mainly due to the consolidation of Yulin Pharmaceutical Group's operations which have comparatively longer production cycle, and the increase in inventory level to prepare for the expected increase in market demand in the second half year.

Trade Payable

As at 30 June 2017, the balance of trade payable was RMB96,295,000, representing an increase of 20.8% as compared with the balance of RMB79,733,000 as at 31 December 2016. The trade payable turnover days in the first half of 2017 were 84.7 days, representing an increase of 14.9 days from 69.8 days in 2016. It was mainly attributable to the consolidation of Yulin Pharmaceutical Group's operations which obtained longer credit period from suppliers.

Cash Flow from Operating Activities

The net cash inflow from operating activities of the Group in the first half of 2017 was RMB74,426,000, representing a decrease of 42.9% as compared with the RMB130,254,000 for the same period of 2016, which was mainly due to longer credit period granted to strategic customers with good credit standing based on the market situation, and the increase in inventory level to prepare for the expected increase in market demand in the second half year.

Cash and Bank Balances and Borrowings

As at 30 June 2017, cash and bank balances of the Group were RMB661,224,000, representing a decrease of 1.7% as compared with the balance of RMB672,711,000 as at 31 December 2016. As at 30 June 2017, the Group's bank borrowings amounted to RMB566,035,000 which mainly represents the three-year term loan in connection with the Share Buy-back, and the strategic short-term loans with preferential interest rate obtained by Yulin Pharmaceutical Group. As at 30 June 2016, the Group did not have any interest bearing borrowing.

Treasury Policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period under review. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time. Cash and cash equivalents of the Group are mainly denominated in RMB and HKD.

Gearing Ratio

The gearing ratio of the Group, representing the total interest bearing borrowings divided by total equity attributable to equity shareholders of the Company as at 30 June 2017 was 42% (31 December 2016: 0%). The increase in gearing ratio was mainly due to the three-year term loan obtained by the Company for the purpose of the Share Buy-back, and the strategic short-term loans with preferential interest rate obtained by Yulin Pharmaceutical Group during the period.

Exchange Risks

The Group's transactions are mainly denominated in RMB and HKD. The majority of assets and liabilities are denominated in RMB and HKD, and there are no significant assets and liabilities denominated in other currencies. During the period the Company obtained a three-year term loan of HKD560,000,000 for the purpose of the Share Buy-back, and an exchange gain is recorded as a result of appreciation of RMB against HKD as at 30 June 2017, and the Group will continue to face similar exchange rate risk in future due to fluctuation of exchange rates. During the period, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

Capital Structure

During the first half of 2017, with the shareholders' approval at an extraordinary general meeting, the Company completed an off-market buy-back of 146,140,200 ordinary shares from First Kind International Limited (during the year of 2016: 23,489,000 ordinary shares from the market) and cancelled those shares. Other than this, there were no significant changes in the Company's capital structure. The Company's capital comprises ordinary shares and other reserves.

Capital Commitments

As at 30 June 2017, the Group had capital commitments of RMB22,740,000 (31 December 2016: RMB25,671,000).

Capital Expenditure

For the six months ended 30 June 2017, the Group had capital expenditure of RMB15,444,000 (same period of 2016: RMB4,919,000).

Information on Employees

As at 30 June 2017, the Group employed 2,209 employees (31 December 2016: 2,108 employees). For the six months ended 30 June 2017, the total staff costs (including Directors' remuneration) were RMB137,723,000 (same period of 2016: RMB76,245,000). The salaries of the employees were determined with reference to individual performance, work experience, qualification and current industry practices.

On top of basic salaries, bonuses may be paid by reference to the Group's performance as well as individual's performance. Other staff benefits include contributions to Mandatory Provident Fund retirement benefits scheme in Hong Kong and various retirement benefits schemes including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the prevailing regulatory requirements of the PRC. The salaries and benefits of the Group's employees are kept at a competitive level and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a Share Option Scheme adopted by the Company on 2 December 2013, and a Share Award Scheme adopted on 21 July 2014, where options to subscribe for shares and share awards may be granted to the Directors and employees of the Group.

The Group made considerable efforts in continuing education and training programs for its staff, to continuously enhance their knowledge, skills and team spirit. The Group regularly provided internal and external training courses for relevant staff according to their needs.

Significant Investments Held

Except for investments in subsidiaries and an associate, as at 30 June 2017, the Group did not hold any significant investment in equity interest in any other company.

Future Plans for Material Investments and Capital Assets

The Group currently does not have other future plans for material investments and capital assets.

Pledge of Assets

As at 30 June 2017, the Group did not have any pledged assets (31 December 2016: nil).

Contingent Liabilities

As at 30 June 2017, the Group did not have any material contingent liabilities (31 December 2016: nil).

Connected Transaction

On 6 February 2017, the Company entered into a Share Buy-back Agreement (the “**Share Buy-back Agreement**”) with First Kind International Limited (“**First Kind**”) pursuant to which the Company agreed to acquire and First Kind agreed to dispose of 146,140,200 Shares at the total consideration of HKD560,739,947.40 (the “**Share Buy-back**”), equivalent to HKD3.837 per buy-back share.

The Share Buy-back contemplated under the Share Buy-back Agreement constitutes a connected transaction (by virtue of First Kind being a substantial shareholder of the Company) for the Company under the Listing Rules and is therefore subject to the approval by the disinterested shareholders of the Company at the extraordinary general meeting.

The Board believes that the Share Buy-back is entered into on normal commercial terms which are fair and reasonable and in the interests of the Company and the shareholders as a whole.

Completion had taken place on 24 April 2017 following the shareholders’ approval at the extraordinary general meeting held on 11 April 2017 and fulfillment of the conditions precedent under the Share Buy-back Agreement. Further details of the Share Buy-back have been disclosed in the announcements of the Company dated 6 February 2017, 11 April 2017 and 24 April 2017 and the circular of the Company dated 20 March 2017.

Save as disclosed above, the Group did not enter into any transactions which constitute non-exempt connected transactions within the meaning of the Listing Rules during the period.

Events after the Reporting Period

As of the date of this announcement, the Group has no significant events after the period required to be disclosed.

Outlook

Looking ahead, the Group will continue to uphold the Group’s advantages in oral modern Chinese medicines for kidney diseases in PRC market and medical contrast medium segments, and based on Yulin Pharmaceutical Group’s strong foundation in traditional Chinese medicines market, and with the support of national macroeconomic policies, make efforts to allow more patients to be able to use our products, and contribute to the health of mankind.

Interim Dividend

As the Group’s achieved satisfactory results for the six months ended 30 June 2017, and with the value added effect to the shareholders from the Share Buy-back, the Company’s earnings per share (basic and diluted) increased by 36.2% from RMB0.1507 for the first half of 2016 to RMB0.2052 for the first half of 2017. In view of the Group’s healthy net cash inflow from operating activities of RMB74,426,000 for the period, and the cash and bank balances of RMB661,224,000 at the end of the period, the Board considered the increase of dividend distribution ratio as a return to the shareholders for their support to the Company, from the Company’s past dividend distribution ratio of around 30% of the profit of the relevant period, to around 40% of the profit for the six months ended 30 June 2017. The Board will determine the future dividend distribution policy based on the Group’s results and financial position after considering the relevant factors.

The Board is pleased to announce the distribution of an interim dividend (the “**Interim Dividend**”) of HKD0.096 per share (approximately RMB0.082 per share) in respect of the six months ended 30 June 2017 (2016 interim dividend: RMB0.045 per share), amounted to approximately RMB66,059,000 (2016 interim dividend: RMB42,942,000). It is expected that the Interim Dividend will be paid on or about Friday, 29 September 2017 to the shareholders whose names appear on the register of members of the Company on Tuesday, 12 September 2017.

Closure of Register of Members

For the purpose of determining shareholders’ entitlement to the Interim Dividend, the register of members of the Company will be closed from Friday, 8 September 2017 to Tuesday, 12 September 2017 (both days inclusive).

In order to qualify for the entitlements to the Interim Dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen’s Road East, Wan Chai, Hong Kong, not later than 4:30 pm on Thursday, 7 September 2017.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company’s Listed Securities

During the six months ended 30 June 2017, with the shareholders’ approval at an extraordinary general meeting, the Company completed an off-market buy-back of 146,140,200 ordinary shares from First Kind International Limited and cancelled those shares, with details as follows:

Month of repurchase	Number of ordinary shares of HKD0.10 each of the Company	Price per share HKD	Aggregate consideration paid	
			<i>HKD’000</i>	<i>RMB’000</i>
April 2017	146,140,200	3.837	560,740	495,246

Further details of the above Share Buy-back (including the reasons for making the buy-back) were disclosed in the Company’s circular dated 20 March 2017.

Save for the above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the 6 months ended 30 June 2017.

Pre-emptive Rights

There is no provision for the pre-emptive rights under the Company’s Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Corporate Governance Report

Adapting and adhering to recognised standards of corporate governance principles and practices has always been one of the top priorities of the Company. The Board believes that good corporate governance is one of the areas that lead to the success of the Company and in balancing the interests of shareholders, customers and employees, and the Board is devoted to ongoing enhancements of the efficiency and effectiveness of such principles and practices.

The Company has adopted and complied with the code provisions set out in Appendix 14, *Corporate Governance Code and Corporate Governance Report*, of the Listing Rules (the “**Code Provisions**”) during the six months ended 30 June 2017.

Model Code for Securities Transactions by the Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have complied with the required standards of dealing as set out in the Model Code during the six months ended 30 June 2017.

Audit Committee

The Company established the Audit Committee on 2 December 2013 with written terms of reference in compliance with paragraph C.3.3 and C.3.7 of the Code Provisions. Its terms of reference were amended on 16 December 2015 and came into effective from 1 January 2016, which are available on the websites of the Company and The Stock Exchange.

The Audit Committee reports to the Board and has held regular meetings to review and make recommendations to improve the Group’s financial reporting process and internal controls. The primary duties of the Audit Committee, among other things, are to make recommendation to the Board on the appointment, re-appointment and removal of external auditor, review the financial statements and advice in respect of financial reporting and oversee internal control procedures of the Group.

As at the date of this announcement, the Audit Committee consists of three members and all of them are independent non-executive Directors, namely Ms. CHENG Xinxin (chairlady), Mr. FENG Zhongshi and Mr. SU Yuanfu.

The unaudited interim results of the Group for the six months ended 30 June 2017 have been reviewed by the Audit Committee and the Company’s external auditor KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the HKICPA.

Publication of information on the Stock Exchange's website

This announcement is published on the websites of the Company (www.chinaconsun.com) and The Stock Exchange (www.hkexnews.hk), and the interim report of the Company for the six months ended 30 June 2017 will be despatched to shareholders of the Company and published on the above websites in due course.

By order of the Board
Consun Pharmaceutical Group Limited
AN Yubao
Chairman

Hong Kong, 24 August 2017

As at the date of this announcement, the Board comprises Mr. AN Yubao, Ms. LI Qian and Professor ZHU Quan as executive Directors; Mr. LIN Sheng as non-executive Director; Mr. SU Yuanfu, Mr. FENG Zhongshi and Ms. CHENG Xinxin as independent non-executive Directors.