康臣藥業集團有限公司
CONSUN PHARMACEUTICAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1681)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2017 amounted to RMB1,660,230,000, representing an increase of approximately 35.7% as compared with the year ended 31 December 2016.
- Profit for the year ended 31 December 2017 attributable to equity shareholders of the Company amounted to RMB396,242,000, representing an increase of approximately 28.8% as compared with the year ended 31 December 2016.
- Basic and diluted earnings per share for the year ended 31 December 2017 amounted to approximately RMB0.4602 and RMB0.4570 respectively, representing increases of approximately 43.6% and 42.6% respectively as compared with the same for the year ended 31 December 2016.
- The Board proposed to declare a final dividend of HKD0.10 per share for the year ended 31 December 2017.

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Consun Pharmaceutical Group Limited (the "**Company**") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively the "**Group**" or "**Consun Pharmaceutical**") for the year ended 31 December 2017 (the "**Annual Results**"), together with the comparative figures of 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017
(Expressed in Renminbi)

	Note	2017 RMB'000	2016 RMB'000
Revenue	2	**1,660,230**	1,223,488
Cost of sales		**(431,835)**	(312,465)
Gross profit		**1,228,395**	911,023
Other income	3	**35,102**	6,104
Distribution costs		**(540,264)**	(374,365)
Administrative expenses		**(163,497)**	(141,666)
Profit from operations		**559,736**	401,096
Finance costs	4(a)	**(14,754)**	(1,509)
Share of profit of an associate		**–**	3,865
Profit before taxation	4	**544,982**	403,452
Income tax	5(a)	**(123,162)**	(83,795)
Profit for the year		**421,820**	319,657
Attributable to:			
– Equity shareholders of the Company		**396,242**	307,526
– Non-controlling interests		**25,578**	12,131
Profit for the year		**421,820**	319,657
Earnings per share (RMB yuan)	6		
– Basic		**0.4602**	0.3205
– Diluted		**0.4570**	0.3204
Profit for the year		**421,820**	319,657
Other comprehensive income for the year 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		**(13)**	150
Total comprehensive income for the year		**421,807**	319,807
Attributable to:			
– Equity shareholders of the Company		**396,229**	307,676
– Non-controlling interests		**25,578**	12,131
Total comprehensive income for the year		**421,807**	319,807

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

(Expressed in Renminbi)

	Note	2017 *RMB'000*	2016 *RMB'000*
Non-current assets			
Investment property	*8*	**17,876**	18,552
Other property, plant and equipment	*9*	**400,797**	392,882
Lease prepayments	*10*	**132,777**	86,006
Intangible assets	*11*	**460,215**	489,629
Goodwill	*12*	**320,647**	320,647
Other investments	*13*	**2,600**	2,600
Other prepayments	*15*	**17,740**	40,400
Deferred tax assets		**34,714**	18,334
Total non-current assets		**1,387,366**	1,369,050
Current assets			
Inventories	*16*	**200,001**	140,974
Trade and other receivables	*17*	**995,085**	576,320
Cash and cash equivalents	*18*	**989,565**	672,711
Total current assets		**2,184,651**	1,390,005
Current liabilities			
Trade and other payables	*19*	**679,722**	483,252
Loans and borrowings	*20*	**193,621**	–
Deferred income		**1,554**	1,346
Current taxation		**95,336**	62,133
Total current liabilities		**970,233**	546,731
Net current assets		**1,214,418**	843,274
Total assets less current liabilities		**2,601,784**	2,212,324
Non-current liabilities			
Loans and borrowings	*20*	**374,483**	–
Deferred income		**20,741**	21,603
Deferred tax liabilities		**142,412**	129,670
Total non-current liabilities		**537,636**	151,273
Net assets		**2,064,148**	2,061,051
Capital and reserves			
Share capital		**68,652**	76,237
Reserves		**1,678,036**	1,684,257
Total equity attributable to equity shareholders of the Company		**1,746,688**	1,760,494
Non-controlling interests		**317,460**	300,557
Total equity		**2,064,148**	2,061,051

1 BASIS OF PREPARATION

(a) Statement of compliance

The Group's consolidated financial information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. This financial information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities ("**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(b) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in this financial information.

(b) 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 impact on the accounting policies of the Group. However, additional disclosure has been included in note 18(c) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

2 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the manufacturing and sales of pharmaceutical products.

The amount of each significant category of revenue is as follows:

	2017	2016
	RMB'000	*RMB'000*
Kidney medicines	**814,926**	734,476
Contrast medium	**119,831**	125,033
Orthopedics medicines	**224,334**	100,793
Dermatologic medicines	**220,995**	110,854
Hepatobiliary medicines	**102,515**	34,724
Women and children medicines	**110,320**	80,066
Others	**67,309**	37,542
	1,660,230	1,223,488

Revenue from major customers contributing over 10% of the revenue of the Group, is as follows, including sales to entities which are known to the Group to be under common control with these customers:

	2017	2016
	RMB'000	*RMB'000*
Customer A	**384,087**	338,430
Customer B	**234,280**	141,510

(b) Segment reporting

The Group manages its businesses by product 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.

(i) Segment results, 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 years ended 31 December 2017 and 2016 is set out below.

	Consun Pharmaceutical Segment		**Yulin Pharmaceutical Segment**		**Total**	
	2017	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
			Note			
Reportable segment revenue						
Revenue from external customers	**1,060,505**	946,140	**599,725**	277,348	**1,660,230**	1,223,488
Reportable segment profit						
Gross profit	**848,253**	748,798	**380,142**	162,225	**1,228,395**	911,023

Note: 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 ("**Acquisition Date**"). Therefore, segment result of Yulin Pharmaceutical Group for the year ended 31 December 2016 represents the financial performance from the 19 July 2016 to 31 December 2016.

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

	2017	2016
	RMB'000	*RMB'000*
Reportable segment gross profit derived from the Group's external customers	**1,228,395**	911,023
Other income	**35,102**	6,104
Distribution costs	**(540,264)**	(374,365)
Administrative expenses	**(163,497)**	(141,666)
Finance costs *(note 4(a))*	**(14,754)**	(1,509)
Share of profit of an associate	**–**	3,865
Consolidated profit before taxation	**544,982**	403,452

(iii) ***Geographic information***

Analysis of the Group's revenue and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as the Group's operating profit is entirely derived from activities of manufacturing and sale of pharmaceutical products in the PRC.

3 OTHER INCOME

	2017	2016
	RMB'000	*RMB'000*
Government grants (i)		
– Unconditional subsidies	**6,708**	1,664
– Conditional subsidies	**2,344**	1,154
Rental income from investment properties	**311**	455
Interest income	**3,419**	3,299
Loss on disposal of property, plant and equipment	**(307)**	(762)
Loss on deemed disposal of an associate	**–**	(827)
Net exchange gains	**23,192**	936
Others	**(565)**	185
	35,102	6,104

(i) Government grants represent various forms of incentives and subsidies granted to the Group by the local government authorities in the PRC.

– Unconditional subsidies

The entitlements of certain government grants amounting to RMB6,708,000 (2016: RMB1,664,000) were unconditional. They were funds to subsidise the operating expenses of the PRC subsidiaries of the Group during the current or prior years.

– Conditional subsidies

The remaining government grants were conditional government grants and initially recorded as deferred income. The amount of conditional government grants charged to the consolidated statement of profit or loss for the year ended 31 December 2017 was RMB2,344,000 (2016: RMB1,154,000).

4 PROFIT BEFORE TAXATION

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

(a) Finance costs

	2017	2016
	RMB'000	*RMB'000*
Interest on bank loans *(note 18(c))*	**11,052**	1,509
Finance charges on bank loans *(note 18(c))*	**3,702**	–
	14,754	1,509

(b) Staff costs

	2017	2016
	RMB'000	*RMB'000*
Salaries, wages, bonuses and benefits	**322,579**	169,533
Contributions to defined contribution retirement schemes	**8,651**	7,524
Equity settled share-based payments:		
Share Option Scheme	**21,187**	21,590
Share Award Scheme	**–**	904
	352,417	199,551

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in defined contribution retirement schemes (the "**Schemes**") organised by the local government authorities whereby the PRC subsidiaries are required to make contributions to the Schemes based on certain percentages of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees. The Group has no other obligations for payments of retirement and other post-retirement benefits of employees other than the contributions described above.

(c) **Other items**

	Note	2017 RMB'000	2016 RMB'000
Depreciation			
– Investment properties	*8*	**676**	338
– Other property, plant and equipment	*9*	**33,938**	24,026
Amortisation			
– lease prepayments	*10*	**3,106**	1,378
– intangible assets	*11*	**29,414**	14,707
Auditor's remuneration			
– audit services		**2,100**	2,100
– non-audit services		**770**	1,580
(Reversal of provision)/provision recognised for doubtful debts	*17*	**(2,089)**	1,174
Operating lease charges		**2,858**	2,370
Research and development cost#		**45,070**	38,154
Cost of inventories*	*16*	**431,835**	312,465

During the year ended 31 December 2017, research and development cost include RMB20,442,000 (2016: RMB8,522,000) 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 the note 4(b) for each of these types of expenses.

* During the year ended 31 December 2017, cost of inventories include RMB81,777,000 (2016: RMB63,918,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in the note 4(b) for each of these types of expenses.

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) **Taxation in the consolidated statement of profit or loss represents:**

	2017 RMB'000	2016 RMB'000
Current tax		
Provision for PRC income tax for the year	**127,354**	94,010
(Over)/under-provision for PRC income tax in respect of prior years	**(554)**	510
	126,800	94,520
Deferred tax		
Origination and reversal of temporary differences	**(3,638)**	(10,725)
	123,162	83,795

(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 the years ended 31 December 2016 and 2017.

(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**") and Guangzhou Consun Pharmaceutical Company Limited ("**Guangzhou Consun**") were qualified as an "Advanced and New Technology Enterprise", Inner Mongolia Consun and Guangzhou Consun were entitled to the preferential income tax rate of 15% from 2015 to 2017 and 2017 to 2019, respectively.

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 to apply 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 the 10% withholding tax rate for PRC withholding tax purposes.

The Directors of the Group have determined that in determining the amounts of dividends to be distributed from PRC subsidiaries to the Hong Kong incorporated subsidiary in future, the amounts of dividends declared or to be declared by the Company, and the repayment schedule of loans and borrowings of the Company would be considered. As at 31 December 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.

(b) Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2017 *RMB'000*	2016 *RMB'000*
Profit before taxation for the year	**544,982**	403,452
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**144,299**	106,043
Effect of non-deductible expenses	**22,072**	19,650
Effect of tax concessions	**(59,808)**	(42,408)
Tax effect of withholding tax	**17,153**	–
(Over)/under-provision in respect of prior years	**(554)**	510
Actual tax expenses	**123,162**	83,795

6 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 RMB396,242,000 (2016: RMB307,526,000) and the weighted average number of ordinary shares of 861,067,000 shares (2016: 959,503,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2017	2016
	'000 shares	*'000 shares*
Issued ordinary shares at 1 January	**974,268**	997,757
Effect of shares repurchased and cancelled	**(100,496)**	(18,325)
Effect of issuance of shares	**6,925**	–
Effect of share options exercised	**68**	–
Effect of treasury shares held under the Share Award Scheme	**(19,698)**	(20,000)
Effect of awarded shares vested under the Share Award Scheme	**–**	71
Weighted average number of ordinary shares at 31 December	**861,067**	959,503

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2017 is based on the profit attributable to equity shareholders of the Company of RMB396,242,000 (2016: RMB307,526,000) and the weighted average number of ordinary shares of 867,114,000 shares (2016: 959,734,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2017	2016
	'000 shares	*'000 shares*
Weighted average number of ordinary shares at 31 December	**861,067**	959,503
Dilutive effect of awarded shares under the Share Award Scheme	**–**	231
Dilutive effect of deemed issue of shares under the Share Option Scheme for nil consideration	**6,047**	–
Weighted average number of ordinary shares (diluted) at 31 December	**867,114**	959,734

7 DIVIDENDS

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2017	2016
	RMB'000	*RMB'000*
Interim dividend declared and paid of HKD0.096 per ordinary share (2016: RMB0.045)	**66,059**	42,942
Final dividend proposed after the end of the year of HKD0.10 per ordinary share (2016: HKD0.05)	**68,943**	36,599
Special dividend proposed after the end of the year (2016: HKD0.10 per ordinary share)	**–**	73,198
	135,002	152,739

Final dividend proposed after the end of the year have not been recognised as liabilities as at the end of the year.

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

	2017	2016
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year of HKD0.05 per ordinary share (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 year of HKD0.10 per ordinary share (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.

8 INVESTMENT PROPERTY

	RMB'000
Cost	
At 1 January 2016	–
Addition through acquisition of subsidiaries	18,890
At 31 December 2016, 1 January 2017 and 31 December 2017	18,890
Accumulated depreciation:	
At 1 January 2016	–
Charge for the year	(338)
At 31 December 2016 and 1 January 2017	(338)
Charge for the year	(676)
At 31 December 2017	(1,014)
Net book value:	
At 31 December 2017	17,876
At 31 December 2016	18,552

Investment properties of the Group are situated in the PRC.

The Group leases out investment properties under operating leases. The leases typically run for an initial period of 5 years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually increased every year to reflect market rentals. None of the leases includes contingent rentals.

Included in investment property, properties of RMB13,886,000 (2016: RMB18,890,000) are held under operating leases that would otherwise meet the definition of investment property, and properties of RMB5,004,000 (2016: nil) are held for a currently undetermined future use.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**1,036**	1,506
After 1 year but within 5 years	**930**	1,473
After 5 years	**–**	123

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 31 December 2017 and 2016.

9 OTHER PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost:						
At 1 January 2016	189,784	94,531	12,961	11,063	3,923	312,262
Addition through acquisition of subsidiaries	77,384	23,495	1,066	1,357	71,772	175,074
Transfer from construction in progress	32,213	42,235	–	66	(74,514)	–
Other additions	124	6,568	1,472	2,040	8,912	19,116
Disposals	–	(5,379)	(1,295)	(338)	–	(7,012)
At 31 December 2016 and 1 January 2017	299,505	161,450	14,204	14,188	10,093	499,440
Transfer from construction in progress	15,264	18,118	–	1,254	(34,636)	–
Other additions	429	2,379	185	1,781	38,314	43,088
Disposals	–	(5,574)	(397)	(851)	–	(6,822)
At 31 December 2017	315,198	176,373	13,992	16,372	13,771	535,706
Accumulated depreciation:						
At 1 January 2016	(41,724)	(32,811)	(7,606)	(6,348)	–	(88,489)
Charge for the year	(10,100)	(10,673)	(1,235)	(2,018)	–	(24,026)
Written back on disposal	–	4,548	1,165	244	–	5,957
At 31 December 2016 and 1 January 2017	(51,824)	(38,936)	(7,676)	(8,122)	–	(106,558)
Charge for the year	(14,813)	(15,332)	(1,461)	(2,332)	–	(33,938)
Written back on disposal	–	4,398	381	808	–	5,587
At 31 December 2017	(66,637)	(49,870)	(8,756)	(9,646)	–	(134,909)
Net book value:						
At 31 December 2017	248,561	126,503	5,236	6,726	13,771	400,797
At 31 December 2016	247,681	122,514	6,528	6,066	10,093	392,882

10 LEASE PREPAYMENTS

	RMB'000
Cost:	
At 1 January 2016	29,808
Addition through acquisition of subsidiaries	63,810
At 31 December 2016 and 1 January 2017	93,618
Additions	49,877
At 31 December 2017	143,495
Accumulated amortisation:	
At 1 January 2016	(6,234)
Charge for the year	(1,378)
At 31 December 2016 and 1 January 2017	(7,612)
Charge for the year	(3,106)
At 31 December 2017	(10,718)
Net book value:	
At 31 December 2017	132,777
At 31 December 2016	86,006

Lease prepayments represent prepayments for land use rights paid to the PRC authorities. The leasehold lands are located in the PRC, on which the Group's manufacturing plants were built. The Group was granted land use rights for a period of 50 years initially and the remaining period range from 33 to 49 years.

11 INTANGIBLE ASSETS

	Patents *RMB'000*	**Trademark** *RMB'000*	**Total** *RMB'000*
Cost:			
At 1 January 2016	–	–	–
Addition through acquisition of subsidiaries	248,103	256,233	504,336
At 31 December 2016, 1 January 2017 and 31 December 2017	248,103	256,233	504,336
Accumulated amortization:			
At 1 January 2016	–	–	–
Charge for the year	(14,707)	–	(14,707)
At 31 December 2016 and 1 January 2017	(14,707)	–	(14,707)
Charge for the year	(29,414)	–	(29,414)
At 31 December 2017	(44,121)	–	(44,121)
Net book value:			
At 31 December 2017	203,982	256,233	460,215
At 31 December 2016	233,396	256,233	489,629

The amortization charge for the year is included in "cost of sales" in the consolidated statement of profit or loss.

Trademark with the carrying amount of RMB256,233,000, acquired through the acquisition of Yulin Pharmaceutical Group in 2016, are assessed to have indefinite useful lives when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. The recoverable amount of the trademark that has indefinite useful life is estimated annually whether or not there is any indication of impairment. The amount is allocated to the Group's cash-generating units ("**CGU**") of Yulin Pharmaceutical Group.

The recoverable amount of the trademark that has indefinite useful life is determined based on value-in-use calculations by preparing cash flow projections of the relevant CGU derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated increase rate of 3% in selling price and cost with no growth in sales volume. The cash flows are discounted using a discount rate of 14.94% (2016: 13.82%). The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. No impairment loss was recognised during the year ended 31 December 2017 (2016: nil).

12 GOODWILL

	RMB'000
Cost and carrying amount	
At 1 January 2016	–
Addition through acquisition of subsidiaries	320,647
At 31 December 2016, 1 January 2017 and 31 December 2017	320,647

Impairment tests for CGU containing goodwill

Goodwill newly acquired through business combination is allocated to the Group's CGU of Yulin Pharmaceutical Group.

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 3% in selling price and cost with no growth in sales volume. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 14.94% (2016: 13.82%). The discount rates used are pre-tax and reflects specific risks relating to the relevant CGU. No impairment loss was recognised during the year ended 31 December 2017 (2016: nil).

13 OTHER INVESTMENTS

	2017	2016
	RMB'000	*RMB'000*
Available-for-sale equity securities-unlisted	**2,600**	2,600

Other investment of the Group represents an investment in a domestic medicine manufacturer located in Inner Mongolia Autonomous Region of the PRC. The Group owns a 5% equity interest in the domestic medicine manufacturer. No quoted market price in an active market for the investment is available. Quoted prices in active market for similar investment or observable market data as significant inputs for valuation techniques are also not available. Therefore, the unlisted other investment is stated at cost less impairment, if any, in the consolidated financial statements.

14 INVESTMENTS IN SUBSIDIARIES

(a) Capital injection in Yulin Pharmaceutical

In January and February 2017, cash contributions of RMB8,722,000 and RMB2,838,000 were made by the Group and other equity interests holders respectively. As a result, the Group's equity interest in Yulin Pharmaceutical Group further increased from 72.62% to 72.69%. The Group recognised an increase in non-controlling interests ("**NCI**") of RMB2,357,000 and an increase in retained earnings of RMB481,000.

(b) The following table lists out the information relating to Yulin Pharmaceutical Group, the only sub-group of the Group which has a material NCI. The summarised financial information presented below represents the amounts before any inter-company elimination.

	2017 ***RMB'000***	Period from the Acquisition Date to 31 December 2016 *RMB'000*
NCI percentage at 31 December	**27.31%**	27.38%
Current assets	**945,471**	635,206
Non-current assets	**784,106**	784,323
Current liabilities	**(475,549)**	(224,957)
Non-current liabilities	**(91,473)**	(96,848)
Net assets	**1,162,555**	1,097,724
Carrying amount of NCI	**317,460**	300,557
Revenue of the year/period	**599,725**	277,348
Profit of the year/period	**93,666**	40,433
Total comprehensive income of the year/period	**93,666**	40,433
Profit allocated to NCI	**25,578**	12,131
Cash flows from operating activities	**(56,475)**	118,004
Cash flows from investing activities	**(44,494)**	(43,494)
Cash flows from financing activities	**69,106**	196,931

15 OTHER PREPAYMENTS

	2017	2016
	RMB'000	*RMB'000*
Prepayment for purchase of other property, plant and equipment	**13,417**	–
Prepayment for loan facility fees – non-current portion *(note 17(e))*	**4,323**	–
Prepayment for obtainment of land use right	**–**	40,400
	17,740	40,400

16 INVENTORIES

	2017	2016
	RMB'000	*RMB'000*
Raw materials	**89,207**	70,669
Work in progress	**39,908**	42,891
Finished goods	**70,886**	27,414
	200,001	140,974

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

	2017	2016
	RMB'000	*RMB'000*
Cost of inventories sold	**430,850**	310,224
Write down of inventories	**985**	2,241
	431,835	312,465

17 TRADE AND OTHER RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade debtors	**576,668**	278,729
Bills receivable	**395,102**	282,111
Less: Allowance for doubtful debtors *(note 17(b))*	**(1,476)**	(3,565)
	970,294	557,275
Other receivables *(note 17(d))*	**15,776**	9,146
Prepayments *(note 17(e))*	**9,015**	9,899
	995,085	576,320

(a) Ageing analysis

As of the end of the reporting period, the ageing 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:

	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**903,231**	512,413
3 to 12 months	**58,986**	29,153
Over 12 months	**8,077**	15,709
	970,294	557,275

Trade receivables and bills receivable are due within 30-90 days from the date of billing.

(b) Impairment of trade debtors and bills receivable

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly.

The movements in the allowance for doubtful debts during the year are as follows:

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**3,565**	19
Addition from acquisition of subsidiaries	**–**	2,494
Impairment loss (reversed)/recognised	**(2,089)**	1,052
At 31 December	**1,476**	3,565

As at 31 December 2017, the Group's trade debtors and bills receivable of RMB11,058,000 (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 allowances for doubtful debts of RMB1,476,000 (2016: RMB3,565,000) respectively were recognised.

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are not considered to be impaired are as follows:

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**934,598**	536,868
Less than 1 month past due	**520**	909
1 to 3 months past due	**381**	1,840
More than 3 months but less than 12 months past due	**24,890**	4,176
Over 12 months past due	**323**	9,499
	26,114	16,424
	960,712	553,292

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(d) Impairment of other receivables

As at 31 December 2017, the Group's other receivables of RMB122,000 (31 December 2016: RMB122,000) were individually determined to be impaired in full.

(e) Prepayments

Loan facility fees of RMB9,266,000 (31 December 2016: nil) in connection with the three-year term loan (note 20) were prepaid, of which RMB4,323,000 was expected to be recognised as expenses after more than one year and was classified as non-current and included in other prepayments (note 15), and the remaining amount of RMB4,943,000 which was expected to be recognised as expenses within one year was included in trade and other receivables.

18 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2017	2016
	RMB'000	*RMB'000*
Cash at bank and on hand	**989,565**	672,711

(b) Reconciliation of profit before taxation to cash generated from operations:

	2017	2016
	RMB'000	*RMB'000*
Profit before taxation	**544,982**	403,452
Adjustments for		
Depreciation	**34,614**	24,364
Amortisation	**32,520**	16,085
(Reversal of provision)/provision recognised for doubtful debts	**(2,089)**	1,174
Interest income	**(3,419)**	(3,299)
Finance costs	**14,754**	1,509
Loss on disposal of property, plant and equipment	**307**	762
Share-based payment transactions	**21,187**	22,494
Write down of inventories	**985**	2,241
Share of profit of an associate	**–**	(3,865)
Foreign exchange gain	**(23,192)**	–
Changes in working capital		
(Increase)/decrease in inventories	**(60,012)**	25,432
Increase in trade and other receivables	**(412,869)**	(128,250)
Increase in trade and other payables	**198,606**	146,628
(Decrease)/increase in deferred income	**(654)**	2,591
Cash generated from operations	**345,720**	511,318

(c) Reconciliation of liabilities arising from financing activities:

	Loans and borrowings	**Prepayment for loan facility fees**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
	Note 20	**Note 17(e)**	
At 1 January 2017	**–**	**–**	**–**
Changes from financing cash flows:			
Proceeds of new bank loans	**653,707**	**–**	**653,707**
Repayments of bank loans	**(59,066)**	**–**	**(59,066)**
Finance costs paid	**(11,052)**	**(12,968)**	**(24,020)**
Total changes from financing cash flows	**583,589**	**(12,968)**	**570,621**
Exchange adjustments	**(26,537)**	**–**	**(26,537)**
Other changes:			
Interest on bank loans *(note 4(a))*	**11,052**	**–**	**11,052**
Finance charges on bank loans *(note 4(a))*	**–**	**3,702**	**3,702**
Total other charges	**11,052**	**3,702**	**14,754**
At 31 December 2017	**568,104**	**(9,266)**	**558,838**

19 TRADE AND OTHER PAYABLES

	2017	2016
	RMB'000	*RMB'000*
Trade payables	**68,739**	79,733
Receipts in advance	**4,220**	10,368
Accrued expenses	**236,738**	169,810
Employee benefits payable	**174,995**	67,572
Other payables	**195,030**	155,769
	679,722	483,252

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

	2017	2016
	RMB'000	*RMB'000*
Within 1 month	**31,129**	39,085
1 to 12 months	**36,619**	40,341
Over 12 months	**991**	307
	68,739	79,733

20 LOANS AND BORROWINGS

At December 2017, loans and borrowings were unsecured bank loans and were repayable as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 1 year	**193,621**	–
After 1 year but within 2 years	**140,431**	–
After 2 years but within 3 years	**234,052**	–
	374,483	–
	568,104	–

A three-year term loan which amounted to HKD560,000,000 (equivalent to RMB468,104,000) was included in loans and borrowings and is interest-bearing at 2.00% per annum over the relevant HIBOR.

As at 31 December 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 31 December 2017, none of the covenants relating to drawn down loan had been breached.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY AND BUSINESS OVERVIEW

1. The Group's Overall Business Scale Reached a New Level of RMB1.66 Billion

During 2017, all staff of Consun adhered to our mission and continued to advance with committed efforts. Continuously pushing forward the transformation of "Brand & Terminal" marketing mode and focusing on consumers, we are determined to strive for the "growth with higher quality". In 2017, the Group's overall business scale amounted to RMB1.66 billion, representing a year-to-year growth of approximately 35.7%, among which, the scale of our core business (excluding the Yulin Pharmaceutical segment) exceeded RMB1 billion, with the growth rate continuously ranking among the top in the PRC pharmaceutical industry. The Company recorded profit attributable to its equity shareholders of RMB396,242,000, representing a year-to-year growth of approximately 28.8%, thereby rewarding our shareholders with remarkable results for their dedicated trust and support to the Company.

The sales of kidney medicines of Consun Pharmaceutical amounted to RMB814,926,000 in 2017, representing a year-to-year growth of approximately 11.0% as compared to last year. Uremic Clearance Granules ("**UCG**"), a flagship product of Consun Pharmaceutical, maintained its strong leading position in the market of oral modern Chinese medicines for kidney diseases.

The sales of Gadopentetic Acid Dimeglumine Salt Injection, Consun Pharmaceutical's leading product in the medical contrast medium market, amounted to RMB119,831,000 for the year, representing a year-to-year decrease of approximately 4.2% as compared to last year, but still maintaining Consun Pharmaceutical's solid market position in medical contrast medium for magnetic resonance imaging.

2017 was the first year that sales revenue of Consun Pharmaceutical's women and children medicines exceeded RMB100 million. In view of the large market for iron supplement products among women and children medicines, the Company has set up a newly designated business team for Iron Dextran Oral Solution which is expected to become an emerging force to contribute to our business results.

Business Development of Yulin Pharmaceutical

1) In 2017, Yulin Pharmaceutical Group recorded revenue of approximately RMB0.6 billion, representing a year-to-year growth of approximately 23.0% (as compared to the whole year of 2016, including revenue during the period from January to July 2016 before it became a subsidiary of Consun Pharmaceutical). Its profits after tax amounted to approximately RMB123 million (including those attributable to non-controlling interest shareholders and excluding amortisation expenses of approximately RMB29 million on consolidation of Consun), representing a year-to-year growth of approximately 52.0%.

   Among the revenue of RMB0.6 billion of Yulin Pharmaceutical Group, sales revenue of its key product, Shiduqing Series, amounted to approximately RMB221 million, representing a year-to-year growth of approximately 13.3%; sales revenue of Zheng Gu Shui amounted to approximately RMB178 million, representing a year-to-year growth of approximately 37.2%; for Jigucao Series, 2017 was the first year that its sales revenue exceeded RMB100 million, where it recorded sales revenue of approximately RMB103 million, representing a year-to-year growth of approximately 24.4%.

2) On 16 September 2017, the inauguration ceremony of Yulin Pharmaceutical's "General Relocation to Industrial Park Project" was held in Yulin Traditional Chinese Medicine Health Industrial Park. Currently, the topping-off of a warehouse sized 20,000 square meters located at the southern area of the industrial park has been completed. This marks a new phase of leap-forward development for Yulin Pharmaceutical, a "Chinese Well-established Brand (中華老字號)" that has over 60 years of history.

   The new business location of Yulin Pharmaceutical has over 600 acres of planned land with a planned total investment of more than RMB1 billion, which is intended to be divided into three construction phases based on the principle of "overall planning and implementation by stages". Upon completion of construction of the new business location, Yulin Pharmaceutical will become an intelligent and modernized medicine manufacturing enterprise integrating research and development ("**R&D**"), production and sales functions, with its production capacity growing six-fold from the current level.

3) In October 2017, Yulin Pharmaceutical commenced the feasibility study and preparation work for listing of its shares in the domestic A shares market. It has officially engaged financial advisors to carry out preliminary work including due diligence exercise. In the future, supported by the rapid development of Yulin Pharmaceutical in recent years, the Group will endeavor to enter the domestic capital market as soon as possible. With the improvement of the ability in expanding its presence in the Chinese medicine health industry, resource exchange function and location value, the Group is confident that Yulin Pharmaceutical will create a new landscape for the development.

2. R&D and Innovation

Making steady progress on the R&D of new medicines, the Group obtained subsidy under national technology research projects for the first time. In 2017, the "Postdoctoral Scientific Research Workstation" of Guangzhou Consun recruited two doctors to commence researches. The project for the new medicine of diabetic kidney disease, "Astragali power pellet" (黃芪散微丸), was granted subsidy of RMB1.8 million from the national "major innovative drug" project, which is the first time the Company obtained subsidy under national technology research projects and the project obtained clinical trial approval from the Centre for Drug Evaluation of the China Food and Drug Administration in March 2018.

The Group's other key research projects focused on the "Ultrasound Micro-bubble Contrast Medium" and "second-round R&D of Zheng Gu Shui". For the ultrasound micro-bubble project, we completed certain tasks of prescription research, optimizing the technological parameter and production line constructions whereas clinical study will be carried out in the near future. As for Zheng Gu Shui, the interim trial of innovative hydrogel patch is due to commence. It is expected that the Group will obtain the clinical trial approval in 2019. Meanwhile, as for the project regarding the "second-round R&D of Kidney Repair and Edema Alleviation" launched in partnership with the Hong Kong Baptist University, the sample preparation of moderate trial was completed. Lanthanum carbonate project has made a breakthrough in the key formulation technology in accordance with the latest national drug registration classification requirements, and is currently in the process of preparing raw materials for trial production. It is expected that trial production of raw material medicines will be completed by mid-2018 and may apply for clinical trial approval by mid-2019. As for Alfacalcidol Capsule, we preliminarily confirmed the prescription through the consistency evaluation, and completed tasks including the prescription analysis of the original products, content determination of raw materials and methodology validation. The whole consistency evaluation is expected to be completed in 2019.

Iopamidol injection for diagnostic imaging has passed the on-site reviews on research and production as well as on-site production inspections. It is currently on the queue for review by the Centre for Drug Evaluation of the PRC, and it is expected to obtain the approval for production in the first half of 2018.

3. Recognition by the Government and the Industry with Multiple Awards

With its rapid growth and excellent performance in the capital market, Consun Pharmaceutical Group ranked 31st in the "Forbes China Up-and-Comers List: Best Listed Companies Category" (福布斯中國上市公司潛力企業榜), was included in the "Top 50 Growing Capability among Chinese PharmCo" (中國醫藥行業成長50強企業) of the "List of the Most Influential Enterprises in the Chinese Pharmaceutical Industry" (中國醫藥行業最具影響力榜單) by All-China Federation of Industry and Commerce Medical Pharmaceutical Chamber, and was honored the "Excellent Enterprises in the Pharmaceutical Industry in Guangdong Province" (廣東省醫藥行業優秀企業) and the "Best Employer Award Nomination" (中國最佳僱主提名獎) in 2017.

In 2017, Ms. Li Qian, the executive director and chief executive officer of the Group was awarded the "Best Business Leader Award" (最佳企業領袖獎) and the "Excellent Entrepreneur in the Pharmaceutical Industry in Guangdong Province" (廣東省醫藥行業優秀企業家). With the strong innovation and R&D capability as well as outstanding contribution, Inner Mongolia Consun was elected for the "Dual Innovation" talent team in Tongliao city, Inner Mongolia. Its "Chinese Medicine Industrialization Project Team on Chronic Renal Failure" (慢性腎功能衰竭中成藥產業化項目組) was granted the honor of "Innovative Talent Team of Tongliao City" (通遼市創新人才團隊).

Inner Mongolia Consun was also awarded the "Wuyi Labor Award" (五一勞動獎狀) and the honorable title of "Enterprise with Excellent Integrity in Tongliao City" (通遼市誠信企業) by the Municipal Government of Tongliao City, Inner Mongolia. Yulin Pharmaceutical was recognized as one of the "2017 National Intellectual Property Advantage Enterprises" (2017年度國家智慧財產權優勢企業) by the State Intellectual Property Office, and received the title of "China Top Ten Member Exporters of TCM Formulations" (中國中成藥行業出口十強) and "Yulin Mayor Quality Award" (玉林市市長品質獎).

In 2017, UCG was again listed on the "List of Healthy China's Brands"; the invention patent of Zheng Gu Shui won the 19th China Patent Excellence Award; Gadopentetic Acid Dimeglumine Salt Injection, Kidney Repair and Edema Alleviation Granules and Cetirizine Hydrochloride Oral Solution were recognized as Guangdong Province Advanced and New Technology Products. At the 24th China International Advertising Festival, Yulin Pharmaceutical's "Integrated Communication Case for Brand Rejuvenation" for 2017 won the "China Advertising Great-wall Award – Classic Case for the Year".

From September to November 2017, Consun Pharmaceutical launched its "Quality Month'' event themed "Participation by all – Provide absolute assurance on the product quality" (全員參與 – 100道工序，100個放心). The "Quality Month'' was planned based on the "2016 Quality Month'' of Guangzhou Consun and the QC skill competition, which had been held for two consecutive years. It involved activities including QC skill competition, contest in quality knowledge, essay competition on quality, quality benchmark election, quality-themed training and quality internal test, with an aim to "enhancing quality awareness and quality control skill". On 28 July 2017, in the 38th Exchange Conference for National Pharmaceutical QC

Circle Achievements, the two QC circles' achievements selected by Consun Pharmaceutical received an excellence award; the QC circle of Guangzhou Consun was awarded the title of "2017 National Pharmaceutical Industry Quality Guaranteed Team". This is the third time in a row that Consun Pharmaceutical won the national pharmaceutical QC circle achievements.

Obtaining the above awards demonstrates that Consun's development is ranking among the top in the industry and bringing positive impact to the community.

4. Launch of online platform for the exercise of options under Consun Pharmaceutical's "Share Option Scheme"

Since the listing on the main board of the Hong Kong Stock Exchange on 19 December 2013, Consun Pharmaceutical granted two tranches of share options to employees at the exercise price of HKD6.64 and HKD4.01, respectively. From 20 November 2017 onwards, participating employees under the "Share Option Scheme" may exercise their options to obtain benefits via the online platform offered by Computershare Hong Kong Investor Services Limited.

The development in the past two decades marked the mutual growth of Consun Pharmaceutical and all its employees as evidenced by the successive implementation of six innovative incentive mechanisms. From profit sharing, housing reward, employee stock ownership, excessive profit incentive to share option scheme and share award scheme, the multi-dimensional and comprehensive incentive mechanism is our competitive edge by which all staff of Consun are motivated to overcome any challenges.

To facilitate a stronger bond between the Company and our core teams, or even all staff, as the "common interested parties" and enable them to become the "dream partners" of Consun Pharmaceutical for achieving the strategic goal of next two decades together, it is necessary for the Company to put more efforts in innovating the staff motivation mechanism with more focused highlights. In view of this innovation for the coming five years, three principles will be upheld: firstly, the benefits therefrom shall be visible and solid; secondly, the goal thereof shall be attainable and sustainable with attempts for improvement that staff would make; and thirdly, it shall demonstrate the concept of "prosperity of my family goes with Consun" for staff.

5. Actively Gaining Capital Market Exposure, Enhancing Efforts in Roadshow Promotion, Moving Steadily for the Shenzhen-Hong Kong Stock Connect

In 2017, Consun Pharmaceutical seized the opportunities to make its moves in the capital market. Firstly, the Company repurchased 15% of its issued share capital at a consideration of HKD3.837 per share at the beginning of the year. Next, the Company completed the placing of its shares, which accounted for 5% of its total issued share capital after issuance, to Far East Horizon Limited at HKD6.6 per share in November. As a result of the Share Buy-Back and the Placing, Consun Pharmaceutical has created substantial returns for the shareholders.

In the meantime, the Company continued to consolidate the management of investor relations and organized more than 50 non-deal roadshows or reverse roadshows throughout the year. With the roadshows, positive exchange was made with nearly 200 investors. More than 20 investment institutions visited Consun Pharmaceutical headquarters and Yulin Pharmaceutical respectively. As many as 22 analyst research reports have been made about Consun Pharmaceutical, many of which raised the target price of its shares.

Along with a series of successful capital activities and frequent roadshow recommendations, the stock price of Consun Pharmaceutical soared considerably and the total market capitalization has been maintaining at or above HKD5 billion since June 2017. In March 2018, Consun Pharmaceutical has finally made its access to Shenzhen-Hong Kong Stock Connect as a result of the dedicated efforts by every member of the management. Meanwhile, this has expanded room for further hike of the market capitalization of the Company.

6. Future Development

Upholding the strategy of "based on specialties and complemented by generics", Consun Pharmaceutical will continue to push forward the vertical development of flagship products for kidney disease and diagnostic imaging, as well as rapidly expand its existing series of products of women and children, orthopedics, dermatology, hepatobiliary and digestive system, so as to develop its "1+6" product structure with utmost effort, and a top class Chinese medicine enterprise with multiple leading specialities and full range of treatment capability in order to be able to provide comprehensive and reliable health management solutions to customers.

Regarding the products for kidney disease, the Company will pursue the development mode of "industrial chain operation" and develop the industry chain of "kidney disease treatment + kidney nourishing" adhering to the core basis of UCG. Monitor-Your-Kidney (盯盯腎), a professional APP committedly developed by the Company for the management of chronic kidney diseases, can provide a full-swing, continual and active disease management for the chronic kidney disease patients. As at the date hereof, Monitor-Your-Kidney (盯盯腎) has collaborated with 17 hospitals throughout China to provide a comprehensive and one-stop solution for managing chronic kidney diseases.

Regarding imaging products, the Company will expand the two segments, namely computer tomography ("CT") and ultrasonic imaging while maintaining the leading position of Gadopentetic Dimeglumine Injection, a medical imaging contrast agent, in the market of magnetic resonance imaging ("MRI").

Regarding OTC products, the Company intends to develop one or two products with annual sales revenue exceeding RMB100 million, expanding further into various product groups comprising products each with annual sales revenue over RMB100 million in the future.

FINANCIAL REVIEW

Revenue

For the year of 2017, the Group's revenue was RMB1,660,230,000, representing an increase of approximately 35.7% as compared with RMB1,223,488,000 for 2016. Categorized by product lines, sales of kidney medicines recorded an increase of approximately 11.0% as compared with last year, among which, Uremic Clearance Granules ("**UCG**") remained the Group's key product, maintained its leading position in oral modern Chinese medicines for kidney diseases; sales of medical contrast medium recorded a slight decrease of approximately 4.2% as compared with last year, but still maintained a leading position in the domestic medical contrast medium market for magnetic resonance imaging; sales of orthopaedics medicines recorded an increase of approximately 122.6%; sales of dermatologic medicines recorded an increase of approximately 99.4%; sales of hepatobiliary medicines recorded an increase of approximately 195.2%; sales the Group's women and children medicines exceeded RMB100 million this year, recorded an increase of approximately 37.8%; and sales of other pharmaceutical products recorded an increase of approximately 79.3%. On top of the Group's efforts to develop the market segments intensively, the significant increase in sales of the above products was also attributable to the acquisition of Yulin Pharmaceutical in July 2016 with its full year revenue reflected in 2017.

Gross Profit and Gross Profit Margin

For the year of 2017, the Group's gross profit was RMB1,228,395,000, representing an increase of approximately 34.8% as compared with RMB911,023,000 for 2016. The increase in gross profit was mainly attributable to the increase in sales. For the year of 2017, the Group's average gross profit margin was approximately 74.0%, representing a slight decrease of 0.5% only as compared with the 74.5% for the last year, which was mainly attributable to the management effort in maintaining selling prices and controlling production costs for the Group's products.

Other Income

For the year of 2017, the Group's other income was RMB35,102,000, which mainly included net exchange gains, government grants and interest income. Compared with the other income of RMB6,104,000 for 2016, the significant increase was mainly attributable to the increase in government grants recognised during the year and the net exchange gains in connection with HKD loans results from the appreciation in RMB.

Distribution Costs

For the year of 2017, the Group's distribution costs was RMB540,264,000, representing an increase of approximately 44.3% as compared with RMB374,365,000 for 2016. The increase in distribution costs was mainly attributable to the Group's dedication in expanding the marketing and distribution networks (including that of Yulin Pharmaceutical) by recruiting additional marketing staff and increasing marketing and academic promotion activities during the year.

Administrative Expenses

For the year of 2017, the Group's administrative expenses were RMB163,497,000, representing an increase of approximately 15.4% as compared with RMB141,666,000 for 2016. The increase in administrative expenses was in line with the Group's expansion in operations.

Finance Costs

For the year of 2017, finance costs were RMB14,754,000. Compared with the finance costs of RMB1,509,000 for 2016, the increase was mainly attributable to the increase in loans and borrowings during the year.

Income Tax

For the year of 2017, the Group's income tax expense was RMB123,162,000, representing an increase of approximately 47.0% as compared with RMB83,795,000 for 2016. The effective tax rate (income tax expense divided by profit before taxation) increased by approximately 1.8% from 20.8% for 2016 to 22.6% for 2017, mainly due to the increase in provision for withholding tax in connection with dividends expected to be distributed from the Group's PRC incorporated subsidiaries to the Hong Kong incorporated subsidiaries in the foreseeable future.

Annual Profit Attributable to Equity Shareholders of the Company and Earnings Per Share

For the year of 2017, the Group's annual profit was RMB396,242,000, representing an increase of approximately 28.8% as compared with RMB307,526,000 for 2016. The basic earnings per share increased by approximately 43.6% from RMB0.3205 for 2016 to RMB0.4602 for 2017, and the diluted earnings per share increase by approximately 42.6% from RMB0.3204 for 2016 to RMB0.4570.

LIQUIDITY AND FINANCIAL RESOURCES

Trade Debtors and Bills Receivable

As at 31 December 2017, the balance of trade debtors and bills receivable was RMB970,294,000, representing an increase of approximately 74.1% as compared with the balance of RMB557,275,000 as at 31 December 2016. Trade receivables turnover days for 2017 were 167.9 days, increased by 30.5 days from 137.4 days for 2016. It was mainly attributable 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 year.

Inventories

As at 31 December 2017, the balance of inventories was RMB200,001,000, representing an increase of approximately 41.9% as compared with the balance of RMB140,974,000 as at 31 December 2016. Inventory turnover days for 2017 were 144.1 days, increased by 20.3 days from 123.8 days for 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.

Trade Payables

As at 31 December 2017, the balance of trade payables was RMB68,739,000, representing a decrease of approximately 13.8% as compared with the balance of RMB79,733,000 as of 31 December 2016. Trade payables turnover days for 2017 were 62.7 days, decreased by 7.1 days from 69.8 days for 2016, which was due to the speed up of settlement process to maintain good relationship with suppliers.

Cash Flows

For the year of 2017, the Group's net cash generated from operating activities was RMB252,123,000, representing a decrease of approximately 43.9% as compared with the RMB449,177,000 for 2016, which was mainly attributable 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. For the year of 2017, the Group's net cash used in investing activities was RMB60,049,000, as compared with the net cash generated from investing activities of RMB91,888,000 for 2016, the change was mainly due to net cash of RMB165,647,000 acquired through acquisition of Yulin Pharmaceutical Group in 2016 which was not recurrent in 2017. For the year of 2017, the Group's net cash generated from financing activities was RMB128,125,000, as compared with the net cash used in financing activities of RMB358,341,000 for 2016, the change was mainly attributable to the proceeds from new bank loans and shares issuance, which was partly off-set by payment for repurchase of shares (the "**Share Buy-Back**") during the year.

Cash and Bank Balances and Borrowings

As at 31 December 2017, the Group's cash and bank balances were RMB989,565,000, representing an increase of approximately 47.1% as compared with RMB672,711,000 as at 31 December 2016. As at 31 December 2017, the Group's total loans and borrowings amounted to RMB568,104,000 which mainly represents the three-year term loan in connection with the Share Buy-Back and the strategic short-term loans obtained by Yulin Pharmaceutical Group. As at 31 December 2016, the Group did not have any interest bearing borrowings.

TREASURY POLICIES

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the year of 2017. 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 31 December 2017 was 32.5% (31 December 2016: 0%). The increase in gearing ratio was mainly due to the three-year term loan obtained by the Company during the year for the purpose of the Share Buy-back.

EXCHANGE RATE RISKS

The Group's transactions are mainly denominated in RMB and HKD. The majority of assets and liabilities are also denominated in RMB and HKD, and there are no significant assets and liabilities denominated in other currencies. During the year 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, and the Group will continue to face similar exchange rate risk in future due to fluctuation of exchange rates. During the year, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

CAPITAL STRUCTURE

In April 2017, with the shareholders' approval at an extraordinary general meeting, the Company completed the Share Buy-back of 146,140,200 ordinary shares from First Kind (2016: buy back 23,489,000 ordinary shares from the market) and cancelled those shares. In November 2017, the Company completed the Placing of 43,585,680 ordinary shares, and in December 2017, the Company issued a total of 1,895,700 ordinary shares pursuant to employees' exercise of share options granted under the Share Option Scheme (adopted on 2 December 2013). Save as disclosed above, 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 31 December 2017, the Group had capital commitments of approximately RMB386,072,000 (31 December 2016: RMB25,671,000).

INFORMATION ON EMPLOYEES

As at 31 December 2017, the Group hired a total of 2,332 employees (31 December 2016: 2,108 employees). The total staff costs (including the directors' remuneration) for the year ended 31 December 2017 was RMB352,417,000 (2016: RMB199,551,000). 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 and various retirement benefits schemes in Hong Kong, 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 (the "**Share Option Scheme**") and a share award scheme adopted on 21 July 2014 (the "**Share Award Scheme**"), 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 cooperation spirit. The Group regularly provided internal and external training courses for relevant staff according to their needs.

SIGNIFICANT INVESTMENTS HELD

Except for investments in its subsidiaries, during the year ended 31 December 2017, the Group did not hold any significant investment in equity interest in any other company.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this announcement, as at the date of this announcement, the Group did not have other future plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have any material acquisitions and disposals of subsidiaries and associated companies during 2017.

PLEDGE OF ASSETS

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

CONTINGENT LIABILITIES

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

PRINCIPAL RISKS AND UNCERTAINTIES

Management continues to manage the Group's key risk exposures, including operational risks (e.g. ensuring high quality of medicines products, safety in the production process and efficiency in the distribution processes), financial risks (e.g. through budget control and cash flow management) and compliance risks (ensuring the relevant rules and regulations are complied with) on a daily basis. Management also pays close attention to the recent development of national policies in respect of pharmaceutical industry, which is a key uncertainty facing the Group, and formulates and adjusts the Group relevant policies accordingly on a timely basis.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to achieving environmental sustainability and incorporating it in the Group's daily operations. Other than complying with all relevant environmental rules and regulations, management always encourage water, energy and materials saving and recycling behaviours which are considered in the performance appraisal process.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the year of 2017, there was no incidence of significant non-compliance of laws and regulations that is relevant to the Group's operations.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, as at the date of this announcement, the Group has no significant events after the period required to be disclosed.

OTHER INFORMATION

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

During the year ended 31 December 2017, the Company completed the Share Buy-back with details as follows:

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

Further details of the Share Buy-back (including the reasons for making the Share Buy-back) were disclosed in the Company's announcements dated 6 February 2017, 11 April 2017 and 24 April 2017, and the Company's circular dated 20 March 2017.

In November 2017, the Company placed 43,585,680 shares (with aggregate nominal value of HKD4,358,568) to United Vantage Corporation Limited (a subsidiary of Far East Horizon Limited (HKEX stock code: 3360), at the placing price of HKD6.60 per share (closing price per share as at 3 November 2017: HKD7.20) (the "**Placing**"). The net proceeds from the Placing were approximately HKD283,093,000, which are expected to be utilised for general working capital and future investment of the Group as and when opportunities arise but no specific investment targets have been identified yet as at the date of this annual report. Far East Horizon Limited is a leading innovative financial services organization with investments in different industries, including medical and healthcare. Currently it has invested in many hospitals in the PRC, which are potential strategic partners/customers of the Group. The Directors consider the Placing represents an opportunity to raise capital for the Company while broadening the shareholder base and capital base of the Company and enhancing the strategic relationship between the Group and Far East Horizon Limited. For details of the Placing (including the reasons for the Placing), please refer to the announcements of the Company dated 25 October 2017 and 3 November 2017.

In December 2017, the Company issued a total of 1,895,700 ordinary shares pursuant to employees' exercise of share options granted under Share Option Scheme (adopted on 2 December 2013).

Save for the above, neither the Company nor any of its subsidiaries purchased, sold or redeem any of the Company's listed securities during the year ended 31 December 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

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 (the "**Code Provisions**") set out in Appendix 14 "Corporate Governance Code and Corporate Governance Report" to the Listing Rules during the year ended 31 December 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 year ended 31 December 2017.

Audit Committee

The Company established an audit committee (the "**Audit Committee**") on 2 December 2013 with written terms of reference in compliance with paragraph C3.3 and C3.7 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, risk management 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 oversee financial reporting, risk management and 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. Mr. SU Yuanfu was appointed as a member of the Audit Committee on 31 May 2017 upon the retirement of the previous member, Mr. Wang Shunlong who was a non-executive Director. The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters. The Audit Committee also met with the external auditors and reviewed the Annual Results.

Scope of work of KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

Risk management and internal control systems

The Board acknowledges its responsibility for ensuring the Group to maintain a sound and effective risk management and internal control system, and making review on its effectiveness at least once a year. The Audit Committee assists the Board in fulfilling its governance role over finance, operations, compliance, risk management and internal control of the Group. The Group's Audit and Legal Centre assists the Board and the Audit Committee in reviewing the effectiveness of the Company's risk management and internal control system on an ongoing basis. The Board is regularly updated on significant risks which may affect the performance of the Group.

The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition, to ensure compliance of relevant ordinances and rules, to ensure proper maintenance of accounting records for provision of reliable financial information used within the business or for publication and to manage operational risks. The controls built into the risk management system are intended to manage, not eliminate, significant risks in the Group's business environment. Such systems are designed to manage rather than eliminate the risk of failure to business objective, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has established on-going procedures for identifying, assessing and managing the significant risks involved with the Group. Meanwhile, it reviews the effectiveness of the relevant internal control system. These procedures include but not limited to: (1) the Group has established and continued to improve the risk management structure and internal control mechanism, and has regularly conducted project audit and annual risk assessment according to the risk management system code and annual plan; (2) to identify the significant risks involved in the business and assess the impact of such risks on the business of the Group; (3) information gathering channels, to ensure material or potential inside information being captured and kept confidential until timely disclosure is made in accordance with the Listing Rules; (4) to conduct gap analysis on the internal control measures in response to the significant risks, and make recommendations on the improvement of its internal audit functions; and (5) to continuously follow up and supervise the implementation of relevant measures against the recommended improvements.

The Group's Audit and Legal Centre assists in implementing the risk management practices and prepares regular work reports on whether the relevant internal control is adequate and effective in the previous year. The Audit Committee will report to the Board on the implementation of the risk management and internal control policy, including the identification of risk factors and assessment on which grades of risks are acceptable by the Group and the effectiveness of risk management and internal control policy.

Based on the report prepared by the Group's Audit and Legal Centre and Audit Committee, the Board believes that the risk management and internal control system of the Group is proper and effective, and the Group has complied with the provisions of risk management and internal control as contained in the corporate governance code. The Group will continue to review the effectiveness of the risk management and internal control system in coming years.

Annual General Meeting

The annual general meeting will be held on Wednesday, 30 May 2018. Shareholders should refer to details regarding the annual general meeting in the circular of the Company to be issued in due course and the notice of the annual general meeting and form of proxy accompanying thereto.

Dividends

The Company paid an interim dividend of HKD0.096 per share in 2017, totally approximately RMB66,059,000 (2016 interim dividend: RMB0.045 per share, totally approximately RMB42,942,000). The Board proposed to declare a final dividend of HKD0.10 per share (2016: HKD0.05 per share), totally approximately RMB68,943,000 (2016: approximately RMB36,599,000) for the year ended 31 December 2017. The proposed final dividend is subject to approval by the shareholders of the Company at the annual general meeting to be held on Wednesday, 30 May 2018 and, if approved, is expected to be paid on or about Friday, 15 June 2018 to shareholders whose names appear on the register of members of the Company on Friday, 8 June 2018. The final dividend is declared and will be paid in HKD.

Closure of the Register of Members

To determine the eligibility of the shareholders of the Company to attend the annual general meeting to be held on Wednesday, 30 May 2018, the Company's register of members will be closed from Thursday, 24 May 2018 to Wednesday, 30 May 2018 (both days inclusive), during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, all completed transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 23 May 2018.

In addition, to determine shareholders' entitlement to the final dividend, the Company's register of members will be closed from Tuesday, 5 June 2018 to Friday, 8 June 2018 (both days inclusive). In order to qualify for the entitlements to the final dividend, all completed transfers documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on Monday, 4 June 2018.

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 annual report of the Company for the year ended 31 December 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, 21 March 2018

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.