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 2021

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2021 amounted to RMB2,044,660,000, representing an increase of approximately 16.6% as compared with the year ended 31 December 2020.
- Profit attributable to equity shareholders of the Company for the year ended 31 December 2021 amounted to RMB590,172,000, representing an increase of approximately 18.3% as compared with the year ended 31 December 2020.
- Basic and diluted earnings per share for the year ended 31 December 2021 amounted to approximately RMB0.74 and RMB0.73 respectively, representing an increase of approximately 21.3% and 19.7% respectively as compared with the year ended 31 December 2020.
- The Board proposed to declare a final dividend of HKD0.2 per share for the year ended 31 December 2021.

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**", "**Consun Pharmaceutical**" or "**Consun Pharmaceutical Group**") for the year ended 31 December 2021 (the "**Annual Results**"), together with the comparative figures of 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021
(Expressed in Renminbi)

	Note	**2021** *RMB'000*	2020 *RMB'000*
Revenue	*2*	**2,044,660**	1,752,830
Cost of sales		**(517,324)**	(431,159)
Gross profit		**1,527,336**	1,321,671
Other income	*3*	**63,384**	58,826
Distribution costs		**(620,041)**	(542,930)
Administrative expenses		**(279,956)**	(203,067)
Reversals/(recognition) of impairment loss on trade and other receivables	*14*	**18,043**	(29,363)
Profit from operations		**708,766**	605,137
Finance costs	*4(a)*	**(12,905)**	(21,401)
Profit before taxation	*4*	**695,861**	583,736
Income tax	*5(a)*	**(108,744)**	(101,993)
Profit for the year		**587,117**	481,743
Attributable to:			
—Equity shareholders of the Company		**590,172**	498,788
—Non-controlling interests		**(3,055)**	(17,045)
Profit for the year		**587,117**	481,743
Earnings per share (RMB yuan)	*6*		
—Basic		**0.74**	0.61
—Diluted		**0.73**	0.61

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021
(Expressed in Renminbi)

	2021 *RMB'000*	2020 *RMB'000*
Profit for the year	**587,117**	481,743
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 mainland China	**163**	(1,127)
Total comprehensive income for the year	**587,280**	480,616
Attributable to:		
－Equity shareholders of the Company	**590,335**	497,661
－Non-controlling interests	**(3,055)**	(17,045)
Total comprehensive income for the year	**587,280**	480,616

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021
(Expressed in Renminbi)

	Note	**2021** *RMB'000*	2020 *RMB'000*
Non-current assets			
Investment properties	*8*	**15,620**	16,121
Property, plant and equipment	*9*	**724,633**	675,773
Right-of-use assets	*10*	**133,815**	123,675
Intangible assets	*11*	**341,664**	371,423
Other prepayments	*12*	**44,318**	45,679
Deferred tax assets		**46,859**	58,885
Total non-current assets		**1,306,909**	1,291,556
Current assets			
Inventories	*13*	**243,035**	227,374
Trade and other receivables	*14*	**369,567**	458,426
Prepayments		**14,584**	32,624
Deposits with banks with original maturity date over three months		**230,000**	–
Restricted cash	*15*	**2,320**	–
Cash and cash equivalents	*15*	**2,196,323**	1,940,273
Total current assets		**3,055,829**	2,658,697
Current liabilities			
Trade and other payables	*16*	**750,214**	709,712
Loans and borrowings	*17*	**599,302**	549,414
Lease liabilities	*18*	**3,124**	–
Deferred income	*19*	**2,231**	1,629
Current taxation		**2,536**	71,108
Total current liabilities		**1,357,407**	1,331,863
Net current assets		**1,698,422**	1,326,834
Total assets less current liabilities		**3,005,331**	2,618,390

	Note	2021 RMB'000	2020 RMB'000
Non-current liabilities			
Lease liabilities	*18*	**8,547**	–
Deferred income	*19*	**16,700**	15,629
Deferred tax liabilities		**69,303**	86,263
Total non-current liabilities		**94,550**	101,892
Net assets		**2,910,781**	2,516,498
Capital and reserves			
Share capital		**64,800**	64,424
Reserves		**2,552,905**	2,155,943
Total equity attributable to equity shareholders of the Company		**2,617,705**	2,220,367
Non-controlling interests		**293,076**	296,131
Total equity		**2,910,781**	2,516,498

NOTES

1 BASIS OF PREPARATION

(a) Statement of compliance

The financial information included in this announcement does not constitute the Group's consolidated financial statements but is derived from those financial statements which have 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**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

The HKICPA has issued certain amendments to 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 accounting period reflected in these financial statements.

(b) Changes in accounting policies

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- *Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform – phase 2*

- *Amendments to HKFRS 16, Covid-19-related rent concessions beyond 30 June 2021*

None of these amendments have had a material effect on how the Group's results and financial position for the current or prior years have been prepared or presented. 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. Further details regarding the Group's principal activities are disclosed in note 2(b).

Disaggregation of revenue from contracts with customers by major products is as follows:

	2021	2020
	RMB'000	*RMB'000*
Kidney medicines	**1,364,683**	1,165,613
Contrast medium	**140,752**	135,553
Orthopedics medicines	**114,316**	138,818
Dermatologic medicines	**108,725**	52,156
Hepatobiliary medicines	**67,400**	36,078
Gynaecology and paediatrics drugs	**205,793**	180,659
Others	**42,991**	43,953
	2,044,660	1,752,830

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in notes 2(b)(i) and 2(b)(iii) respectively.

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:

	2021	2020
	RMB'000	*RMB'000*
Customer A	**509,887**	493,281
Customer B	**244,159**	261,542

As at 31 December 2021, full amount of the transaction price under the Group's existing contracts was recognised as revenue.

(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 most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets. Segment liabilities include trade creditors, accruals, bills payable and lease liabilities attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments with the exception of current taxation and deferred tax liabilities.

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.

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.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as 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 2021 and 2020 is set out below:

For the year ended 31 December	**Consun Pharmaceutical Segment**		**Yulin Pharmaceutical Segment**		**Total**	
	2021	2020	**2021**	2020	**2021**	2020
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Disaggregated by timing of revenue recognition						
Point in time	**1,732,983**	1,499,117	**311,677**	253,713	**2,044,660**	1,752,830
Reportable segment revenue						
Revenue from external customers	**1,732,983**	1,499,117	**311,677**	253,713	**2,044,660**	1,752,830
Reportable segment profit						
Gross profit	**1,371,398**	1,215,130	**155,938**	106,541	**1,527,336**	1,321,671
Interest income from bank deposits	**38,142**	26,560	**1,106**	1,328	**39,248**	27,888
Interest expense	**11,784**	17,978	**1,121**	3,423	**12,905**	21,401
Depreciation and amortisation for the year	**24,282**	23,642	**48,707**	48,153	**72,989**	71,795
(Reversals)/recognition of impairment losses						
– trade and other receivables	**(1,283)**	(1,401)	**(16,760)**	30,764	**(18,043)**	29,363
Reportable segment assets	**2,848,311**	2,391,948	**1,504,335**	1,633,707	**4,352,646**	4,025,655
Reportable segment liabilities	**1,000,841**	779,380	**416,044**	631,291	**1,416,885**	1,410,671

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

	2021	2020
	RMB'000	*RMB'000*
Reportable segment gross profit derived from the Group's external customers	**1,527,336**	1,321,671
Other income *(note 3)*	**63,384**	58,826
Distribution costs	**(620,041)**	(542,930)
Administrative expenses	**(279,956)**	(203,067)
Reversals/(recognition) of impairment loss on trade and other receivables	**18,043**	(29,363)
Finance costs *(note 4(a))*	**(12,905)**	(21,401)
Consolidated profit before taxation	**695,861**	583,736

	2021	2020
	RMB'000	*RMB'000*
Assets		
Reportable segment assets	**4,352,646**	4,025,655
Elimination of inter-segment receivables	**(36,767)**	(134,287)
	4,315,879	3,891,368
Deferred tax assets	**46,859**	58,885
Consolidated total assets	**4,362,738**	3,950,253

	2021	2020
	RMB'000	*RMB'000*
Liabilities		
Reportable segment liabilities	**1,416,885**	1,410,671
Elimination of inter-segment payables	**(36,767)**	(134,287)
	1,380,118	1,276,384
Current taxation	**2,536**	71,108
Deferred tax liabilities	**69,303**	86,263
Consolidated total liabilities	**1,451,957**	1,433,755

(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 99% of the Group's operating profit is derived from activities of manufacturing and sales of pharmaceutical products in the PRC.

3 OTHER INCOME

	2021	2020
	RMB'000	*RMB'000*
Government grants (i)		
– Unconditional subsidies	**2,693**	5,782
– Conditional subsidies *(note 19)*	**4,237**	1,696
Net rental income from investment properties	**1,261**	1,117
Interest income	**39,248**	27,888
Loss on disposal of property, plant and equipment	**(1,990)**	(244)
Net exchange gains	**11,326**	27,366
Others	**6,609**	(4,779)
	63,384	58,826

(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 to certain government grants amounting to RMB2,693,000 (2020: RMB5,782,000) 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 2021 was RMB4,237,000 (2020: RMB1,696,000) (see note 19).

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2021	2020
	RMB'000	*RMB'000*
Interest on bank loans	**9,017**	13,243
Interest expenses on discounted bills	**3,545**	8,158
Interest on lease liabilities	**343**	–
	12,905	21,401

(b) Staff costs

	2021	2020
	RMB'000	*RMB'000*
Salaries, wages, bonuses and benefits	**331,093**	265,614
Contributions to defined contribution retirement schemes	**11,492**	6,164
Equity settled share-based transactions:		
Share Option Scheme	**20,003**	12,165
Share Award Scheme	**3,408**	–
	365,996	283,943

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in defined contribution retirement schemes organised by the local government authorities, to which the PRC subsidiaries are required to make contributions 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.

The Group also operates a Mandatory Provident Fund Scheme (the "**MPF Scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of Hong Kong Dollars ("**HKD**") 30,000. Contributions to the plan vest immediately, there is no forfeited contributions that may be used by the Group to reduce the existing level of contribution.

(c) Other items

	Note	2021 RMB'000	2020 RMB'000
Depreciation and amortisation charge			
– investment properties	*8*	**501**	530
– property, plant and equipment	*9*	**38,268**	38,484
– right-of-use assets	*10*	**4,461**	3,133
– intangible assets	*11*	**29,759**	29,648
Auditor's remuneration			
– audit services		**2,300**	2,100
– non-audit services		**500**	450
(Reversals)/recognition of impairment loss on trade and other receivables	*14*	**(18,043)**	29,363
Leases charges	*10*	**3,935**	3,819
Research and development costs (i)		**102,160**	83,657
Cost of inventories (ii)	*13*	**517,324**	431,159

(i) During the year ended 31 December 2021, research and development costs included RMB27,096,000 (2020: RMB28,392,000) relating to staff costs, depreciation and amortisation expenses and low-value 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.

(ii) During the year ended 31 December 2021, cost of inventories included RMB105,722,000 (2020: RMB101,187,000) 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:

	2021 *RMB'000*	2020 *RMB'000*
Current tax		
Provision for PRC income tax for the year	**67,798**	118,684
PRC dividend withholding tax (iv)	**47,567**	–
Over-provision for PRC income tax in respect of prior years	**(1,687)**	(1,719)
	113,678	116,965
Deferred tax		
Origination and reversal of temporary differences	**42,633**	(14,972)
Effect on distribution of dividends (iv)	**(47,567)**	–
	(4,934)	(14,972)
	108,744	101,993

(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 year ended 31 December 2021 (2020: 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.* (康臣葯業(內蒙古)有限責任公司) ("**Inner Mongolia Consun**") and Guangzhou Consun Pharmaceutical Company Limited* (廣州康臣葯業有限公司) ("**Guangzhou Consun**") were qualified as an "High and New Technology Enterprises", Inner Mongolia Consun and Guangzhou Consun were entitled to the preferential income tax rate of 15% from 2021 to 2023 and 2020 to 2022, respectively.

Guangxi Yulin Pharmaceutical Group Co., Ltd.* (廣西玉林製藥集團有限責任公司) ("**Yulin Pharmaceutical**") and Guangxi Yulin Pharmaceutical Capsule Co., Limited* (廣西玉林玉藥膠囊有限公司) ("**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 2030.

Guangxi Yulin Pharmaceutical Group Yuming Chinese Traditional Medicine Co., Limited* (廣西玉藥集團玉銘中藥有限責任公司) ("**Yuming Chinese Traditional Medicine**") and Guangxi Yulin Pharmaceutical Group Hongsheng Trading Co., Limited* (廣西玉林製藥集團宏升貿易有限公司) ("**Hongsheng Trading**") 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 2021 (2020: 10%).

Guangxi Yulin Pharmaceutical Group Yonglv Chinese Traditional Medicine Industry Co., Limited* (廣西玉藥集團永綠中藥產業有限公司) ("**Yonglv Chinese Traditional Medicine**") met the exemption criteria on income generated through planting of agricultural products and was exempted from PRC income tax in 2020 and 2021.

Consun Pharmaceutical (Horgos) Co., Ltd.* (康臣葯業(霍爾果斯)有限公司) ("**Horgos Consun**") enjoyed the benefit of income tax exemption for five years starting from the financial year with initial operating revenue under the Notice of the Ministry of Finance and the State Administration of Taxation on Income Tax Incentives for Newly-established Enterprises in Poverty Areas of Xinjiang (《財政部國家稅務總局關於新疆困難地區新辦企業所得稅優惠政策的通知》).

(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 Company and its Hong Kong subsidiaries obtained the Certificate of Resident Status of the Hong Kong Special Administrative Region and have satisfied the "Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on income" and therefore have adopted the withholding tax rate at 5% for PRC withholding tax purposes for the calendar year 2020 and the two succeeding calendar years.

The Directors 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 2021, deferred tax liabilities of RMB6,257,000 (31 December 2020: RMB18,227,000) have been provided based on the expected dividends to be distributed from Guangzhou Consun to the Company in the foreseeable future.

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

	2021	2020
	RMB'000	*RMB'000*
Profit before taxation for the year	**695,861**	583,736
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**186,330**	152,551
Effect of non-deductible expenses	**12,148**	12,178
Effect of tax concessions	**(123,644)**	(64,036)
Provision of withholding tax on undistributed profits retained by PRC subsidiaries	**35,597**	3,019
Over-provision in respect of prior years	**(1,687)**	(1,719)
Actual tax expenses	**108,744**	101,993

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 RMB590,172,000 (2020: RMB498,788,000) and the weighted average number of ordinary shares of 801,581,000 shares (2020: 817,264,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2021	2020
	'000 shares	*'000 shares*
Issued ordinary shares at 1 January	**819,625**	865,532
Effect of shares repurchased and cancelled	**–**	(28,570)
Effect of shares repurchased but not yet cancelled	**(786)**	–
Effect of share options exercised	**2,300**	–
Effect of treasury shares held under the Share Award Scheme	**(19,698)**	(19,698)
Effect of award shares vested under the Share Award Scheme	**140**	–
Weighted average number of ordinary shares at 31 December	**801,581**	817,264

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2021 is based on the profit attributable to equity shareholders of the Company of RMB590,172,000 (2020: RMB498,788,000) and the weighted average number of ordinary shares of 804,702,000 shares (2020: 817,264,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2021	2020
	'000 shares	*'000 shares*
Weighted average number of ordinary shares at 31 December	**801,581**	817,264
Dilutive effect of deemed issue of shares under the Share Option Scheme	**3,048**	–
Dilutive effect of awarded shares under the Share Award Scheme	**73**	–
Weighted average number of ordinary shares (diluted) at 31 December	**804,702**	817,264

7 DIVIDENDS

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

	2021	2020
	RMB'000	*RMB'000*
Interim dividend declared and paid of HKD0.10 per ordinary share (2020: HKD0.08)	**66,874**	58,458
Final dividend proposed after the end of the year of HKD0.20 per ordinary share (2020: HKD0.20)	**128,691**	133,950
	195,565	192,408

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

	2021	2020
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year of HKD0.20 per ordinary share (2020: HKD0.10)	**133,950**	74,689
Less: Dividends for Buy-back Shares	**–**	(848)
	133,950	73,841

8 INVESTMENT PROPERTIES

	Land use rights *RMB'000*	Buildings *RMB'000*	Total *RMB'000*
Cost			
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	5,004	13,886	18,890
Accumulated depreciation:			
At 1 January 2020	(473)	(1,766)	(2,239)
Charge for the year	(135)	(395)	(530)
At 31 December 2020	(608)	(2,161)	(2,769)
Charge for the year	(135)	(366)	(501)
At 31 December 2021	(743)	(2,527)	(3,270)
Net book value:			
At 31 December 2021	4,261	11,359	15,620
At 31 December 2020	4,396	11,725	16,121

Investment properties of the Group are situated in the PRC, and their addresses are part of the land and buildings on No. 1, Chengzhan Road, Yulin City, Guangxi Province, currently being leased to a third party for hotel operations; and land and buildings on No. 162, Miaoyuan Lane, Yuzhou District, Yulin City, Guangxi Province, currently being leased to a third party for storage purposes.

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.

As at 31 December 2021, included in investment properties, properties with cost of RMB18,890,000 (31 December 2020: RMB15,704,000) were leased out under operating leases that would otherwise meet the definition of investment property, and no property (31 December 2020: RMB3,186,000) is held for a currently undetermined future use.

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 2020 and 2021.

9 PROPERTY, PLANT AND EQUIPMENT

Reconciliation of carrying amount

	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 2020	332,677	205,329	21,810	20,090	285,921	865,827
Transfer from construction in progress	22	12,373	–	667	(13,062)	–
Other additions	455	8,032	294	2,728	41,795	53,304
Disposals	–	(1,392)	(406)	(530)	–	(2,328)
At 31 December 2020 and 1 January 2021	333,154	224,342	21,698	22,955	314,654	916,803
Transfer from construction in progress	988	2,356	–	171	(3,515)	–
Other additions	1,531	12,706	2,182	2,490	70,531	89,440
Disposals	(1,571)	(3,588)	(2,229)	(934)	–	(8,322)
At 31 December 2021	334,102	235,816	21,651	24,682	381,670	997,921
Accumulated depreciation:						
At 1 January 2020	(100,409)	(81,523)	(10,067)	(12,519)	–	(204,518)
Charge for the year	(14,602)	(18,836)	(1,684)	(3,362)	–	(38,484)
Written back on disposal	–	1,138	375	459	–	1,972
At 31 December 2020 and 1 January 2021	(115,011)	(99,221)	(11,376)	(15,422)	–	(241,030)
Charge for the year	(14,496)	(19,736)	(1,522)	(2,514)	–	(38,268)
Written back on disposal	346	2,775	2,050	839	–	6,010
At 31 December 2021	(129,161)	(116,182)	(10,848)	(17,097)	–	(273,288)
Net book value:						
At 31 December 2021	204,941	119,634	10,803	7,585	381,670	724,633
At 31 December 2020	218,143	125,121	10,322	7,533	314,654	675,773

10 RIGHT-OF-USE ASSETS

	Land use rights *RMB'000* *Note (i)*	Buildings *RMB'000* *Note (ii)*	Total *RMB'000*
Cost:			
At 1 January 2020	143,799	–	143,799
Additions	–	–	–
At 31 December 2020	143,799	–	143,799
Additions	–	14,601	14,601
At 31 December 2021	143,799	14,601	158,400
Accumulated depreciation:			
At 1 January 2020	(16,991)	–	(16,991)
Charge for the year	(3,133)	–	(3,133)
At 31 December 2020	(20,124)	–	(20,124)
Charge for the year	(3,133)	(1,328)	(4,461)
At 31 December 2021	(23,257)	(1,328)	(24,585)
Net book value:			
At 31 December 2021	120,542	13,273	133,815
At 31 December 2020	123,675	–	123,675

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2021	2020
	RMB'000	*RMB'000*
Depreciation charge of right-of-use assets by class of underlying asset:		
Land use rights	**(3,133)**	(3,133)
Buildings	**(1,328)**	–
	(4,461)	(3,133)
Interest on lease liabilities *(note 4(a))*	**343**	–
Expense relating to short-term leases	**3,907**	3,793
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**28**	26

During the year, additions to right-of-use assets were RMB14,601,000 (2020: Nil). This amount was related to the capitalised lease payments payable under new tenancy agreements.

(i) Land use rights

It represents prepayments for the land use rights which was identified as right-of-use assets under HKFRS 16 in the PRC paid to the PRC authorities, 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 periods range from 27 to 45 years.

On 31 May 2019, the Group entered into a series of cooperative development agreements with Guangxi Huafa Real Estate Development Co., Ltd. ("**Guangxi Huafa**") and Yulin City Shunlang Real Estate Investment Co., Ltd. ("**Yulin Shunlang**") in relation to a development project of a plant site of Yulin Pharmaceutical. Pursuant to the cooperative development agreements, a parcel of land wholly owned by Yulin Pharmaceutical with the total site area of approximately 83,670 sq.m. ("**Parcel-1**"), shall be developed integrally together with other parcels of land planned to be acquired after Yulin Pharmaceutical has removed all plant and machinery located on the site. Parcel-1 is located at No.3, Jiangnan Road, Yulin City, Guangxi Province, the PRC.

As at 31 December 2021, the development project was still in the initial planning stage and Parcel-1 was still being occupied and wholly owned by Yulin Pharmaceutical for its own use for production, office and storage purposes.

(ii) Buildings

The Group has obtained the right to use certain buildings through tenancy agreements. The leases typically run for an initial period of 5 years. Lease payments are usually increased to reflect market rentals.

11 INTANGIBLE ASSETS

	Patents	Trademark	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2020	248,283	256,233	504,516
Additions	5,000	–	5,000
At 31 December 2020 and 31 December 2021	253,283	256,233	509,516
Accumulated amortisation:			
At 1 January 2020	(102,956)	–	(102,956)
Charge for the year	(29,648)	–	(29,648)
At 31 December 2020	(132,604)	–	(132,604)
Charge for the year	(29,759)	–	(29,759)
At 31 December 2021	(162,363)	–	(162,363)
Accumulated impairment losses:			
At 1 January 2020, 31 December 2020 and 31 December 2021	–	(5,489)	(5,489)
Net book value:			
At 31 December 2021	90,920	250,744	341,664
At 31 December 2020	120,679	250,744	371,423

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

Four patents with an aggregate net book value of RMB2,500,000 (2020: Nil) were pledged as securities for bank loans of the Group as at 31 December 2021 (note 17(b)).

Trademark acquired through business combination is assessed to have indefinite useful lives when, based on an analysis of all of the relevant factors including beneficial pattern, 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 of Yulin Pharmaceutical and its subsidiaries (collectively referred to as "**Yulin Pharmaceutical Group**") ("**Yulin CGU**").

The recoverable amount of Yulin CGU was determined based on value-in-use calculations by the Directors, with the reference to professional valuation reports issued by Jones Lang LaSalle Incorporated, independent firm of professionally qualified valuers. These calculations apply the cash flow projections based on financial budgets approved by management covering a five-year period. The average budgeted sales growth rate of the five-year period is 14.3% (2020: 22.7%). Cash flows beyond the aforementioned financial forecasts period are extrapolated using estimated sales growth rate of 3% (2020: 3%), which was estimated on the basis of the long-term inflation rate in the PRC. It is a commonly used valuation assumption that the long-term growth rate of a company will converge with the long-term growth rate of the PRC. The cash flows are discounted using a discount rate of 17.2% (2020: 18.1%). The discount rates used are pre-tax and reflect specific risks relating to the Yulin CGU.

The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

No impairment loss was recognised during the year ended 31 December 2021 (2020: Nil).

Had the estimated key assumptions during the forecast period been changed as below, all changes taken in isolation, the recoverable amount of Yulin CGU would be approximately equal to its carrying amount:

Pre-tax discount rate increase to	19.4%
Average revenue growth rate decrease to	11.6%

12 OTHER PREPAYMENTS

	2021	2020
	RMB'000	*RMB'000*
Prepayment for purchase of other property, plant and equipment	**44,318**	45,679

13 INVENTORIES

	2021	2020
	RMB'000	*RMB'000*
Raw materials	**148,255**	120,129
Work in progress	**43,609**	43,096
Finished goods	**51,171**	64,149
	243,035	227,374

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

	2021	2020
	RMB'000	*RMB'000*
Cost of inventories sold	**493,430**	419,345
Write down of inventories	**23,894**	11,814
	517,324	431,159

All of the inventories are expected to be recovered within one year.

14 TRADE AND OTHER RECEIVABLES

	2021	2020
	RMB'000	*RMB'000*
Trade debtors and bills receivable, net of loss allowance (a)	**351,226**	448,540
Other debtors, net of loss allowance (b)	**18,341**	9,886
Financial assets measured at amortised cost	**369,567**	458,426

Note: The Group accepts bank acceptance bills from major banks in the PRC for settlement of trade debts. The management considered that the risk of these bills relates substantially to credit risk. Accordingly, when these bills were transferred by either discounting or endorsement, they were derecognised as a financial asset.

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

(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 loss allowance, is as follows:

	2021	2020
	RMB'000	*RMB'000*
Within 3 months	**281,114**	328,529
3 to 12 months	**36,950**	16,765
Over 12 months	**33,162**	103,246
	351,226	448,540

Trade debtors and bills receivable are due within 30-180 days from the date of billing.

(b) Other debtors

As at 31 December 2021, the Group's other receivables of RMB524,000 (31 December 2020: RMB524,000) were determined to be impaired in full.

15 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

Cash and cash equivalents comprise:

	2021	2020
	RMB'000	*RMB'000*
Cash at bank and on hand	**2,198,643**	1,940,273
Less: Restricted cash	**2,320**	–
	2,196,323	1,940,273

16 TRADE AND OTHER PAYABLES

	2021	2020
	RMB'000	*RMB'000*
Trade payables (i)	**66,638**	50,889
Contract liabilities	**18,979**	13,857
Refund liabilities	**76,332**	80,419
Accrued expenses	**307,785**	265,875
Employee benefits payable	**157,743**	140,542
Other payables	**91,063**	108,130
Project development deposits (ii)	**31,674**	50,000
	750,214	709,712

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

(i) 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:

	2021	2020
	RMB'000	*RMB'000*
Within 1 month	**47,535**	48,842
1 to 12 months	**15,904**	1,359
Over 12 months	**3,199**	688
	66,638	50,889

(ii) As of 31 December 2021, project development deposits represented deposits received by the Group from Guangxi Huafa and Yulin Shunlang pursuant to a series of cooperative development agreements (see note 10(i)).

17 LOANS AND BORROWINGS

(a) The analysis of the repayment schedule of bank loans is as follows:

	2021	2020
	RMB'000	*RMB'000*
Within 1 year	**599,302**	549,414

(b) Assets pledged as security and covenants for bank loans

At 31 December 2021, the bank loans and overdrafts were secured as follows:

	2021	2020
	RMB'000	*RMB'000*
Bank loans		
– secured	**30,000**	–
– unsecured	**569,302**	549,414
	599,302	549,414

At 31 December 2021, the loan of RMB30,000,000 were secured by four patents with a carrying value of RMB2,500,000 as at 31 December 2021 (2020: Nil).

At 31 December 2021, total banking facilities of the Group amounted to RMB1,008,480,000 (2020: RMB784,368,000), which were utilised to the extent of RMB599,302,000 (2020: RMB549,414,000).

As at 31 December 2021, certain banking facilities of the Group amounted to RMB579,680,000 (31 December 2020: RMB402,480,000) are subject to the fulfilment of covenants relating to certain of the Group's or the subsidiaries' financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group had breached the covenants, the drawn down loans would have become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2021, none of the covenants relating to drawn down loans had been breached (31 December 2020: Nil).

18 LEASE LIABILITIES

At 31 December 2021, the lease liabilities were repayable as follows:

	2021	2020
	RMB'000	*RMB'000*
Within 1 year or on demand	**3,124**	–
After 1 year but within 2 years	**2,982**	–
After 2 years but within 5 years	**5,565**	–
	8,547	–
	11,671	–

19 DEFERRED INCOME

	2021	2020
	RMB'000	*RMB'000*
At 1 January	**17,258**	18,394
Additions	**5,910**	560
Credited to profit or loss *(note 3)*	**(4,237)**	(1,696)
At 31 December	**18,931**	17,258
Representing:		
Current portion	**2,231**	1,629
Non-current portion	**16,700**	15,629
	18,931	17,258

Deferred income of the Group mainly includes various conditional government grants for research and development projects of new or existing pharmaceutical products and subsidies relating to purchase of land use rights.

Deferred government grants relating to research and development projects will be recognised as income in the same periods in which the expenses for the development project are incurred. Deferred government grants relating to purchase of land use rights will be recognised as income on a straight-line basis over the expected useful life of the relevant land use rights.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Consun Pharmaceutical Group Limited (the "**Company**"), I am pleased to present the audited consolidated results of the Company and its subsidiaries (collectively referred as the "**Group**", "**Consun**", "**Consun Pharmaceutical**" or "**Consun Pharmaceutical Group**") for the year ended 31 December 2021.

I. Industry and Business Review

In 2021, we entered the post-pandemic era, and affected by the pandemic at home and aboard and domestic and international political and economic factors, national economic growth slowed down and pressure on business operations was intensified, while the domestic pharmaceutical market environment in 2021 has been even more volatile. As medical reform policies continued to deepen, the control pressure on total expenditure for medical insurance has been increasing, the coverage of national centralized pharmaceutical procurement continued to expand, and cross-province alliances became normalized with the quantity procurement, coupled with the promotion of DRG (Diagnosis Related Groups, which is commonly known as the payment by disease types) and rising raw material prices, the pharmaceutical industry continued to be affected by a variety of factors. Even so, the staff of Consun Pharmaceutical were still hardworking and kept forging ahead, and has achieved a gratifying performance in 2021. The Group's sales revenue exceeded RMB2 billion for the first time. Operating profit continued to present a positive growth.

In 2021, the Group recorded sales revenue of approximately RMB2,045 million, representing an increase of approximately 16.6% over last year, and its profit attributable to equity shareholders of the Company was approximately RMB590 million, representing an increase of approximately 18.3% over last year.

1. In terms of business segments, sales revenue of Consun Pharmaceutical Segment amounted to approximately RMB1,733 million, representing a year-on-year increase of approximately 15.6%, among which:

    1) The sales revenue of kidney medicines amounted to approximately RMB1,365 million in 2021, representing a year-on-year increase of approximately 17.1%. The Uremic Clearance Granules (尿毒清顆粒), which is the Group's flagship product, has been improving steadily and achieved sales revenue of RMB1,313 million, representing a year-on-year increase of 16.7%. According to MENET, in the market of Chinese medicines of creatinine reduction (including UCG, Shenkang injection, Shenshuaining and Haikunshenxi), the market share of the Uremic Clearance Granules reached over 33% in 2021 and ranked the first, with both sales and market share reaching record highs. In the Clinical Application Guidelines for Chinese Medicines in the Treatment of Specialty Conditions (《中成藥治療優勢病種臨床應用指南》), which was officially published in 2021, Uremic Clearance Granules were the only "strongly recommended" medicine included in the Guidelines, further strengthening the Company's academic foundation for clinical promotion. The Kidney Repair and Edema Alleviation Granules (益腎化濕顆粒) also achieved satisfactory results with sales revenue of RMB52 million, representing a year-on-year increase of 33.8%.

2) Sales revenue of medical contrast medium was approximately RMB141 million in 2021, representing a year-on-year increase of approximately 3.8%. By adopting measures such as flexibly responding to centralized procurement, accelerating consistency evaluation, and using core expert's influence and brand building to strengthen the base of core large customers, the main market of contrast medium product was stabilized and business growth turned positive. Among our medical products, the iodine product "Kanglexian (康樂顯)" was launched in many areas with nearly 150 new hospitals introducing it, which contributed a lot to the results of the Company.

3) Sales revenue of gynaecology and paediatrics drugs has exceeded RMB200 million (approximately RMB206 million) in 2021, representing a year-on-year increase of over 13.9%. With good taste, high safety and catalog access, Yuanlikang (源力康) (Iron-dextrin Oral Solution) is listed in category B of the national reimbursement drug list (2020 version), National List of Essential Medicines (2018 version) and IDA Clinical Pathway Recommended Drug (county level). Through a combination of marketing strategies such as using brand marketing in cities to build the brand power of the product, entering the pediatric drug guidelines, and capturing the preventive iron supplement patients in gynaecology and obstetrics, the Company has broken the "double low" bottleneck of single production and low coverage, and realized the speedy advancement in pediatrics and gynaecology and obstetrics.

2. The Yulin Pharmaceutical Segment recorded sales revenue of approximately RMB312 million, representing a year-on-year increase of over 22.8% and profit of RMB17 million before fair value adjustment arising from acquisition of Yulin Pharmaceutical Segment, achieving the first profit turnaround after restructuring. The OTC marketing team of Yulin Pharmaceutical adhered to the basic strategy of "speaking for the brand, pipeline empowerment and terminal sales" and deepened the management standard of "refining the terminal, doing pure sales, training the team and all staff working at the frontline". In the second half of 2021, we launched a series of actions such as chain blasting, underwriting, roadshows and product endorsement to activate products, teams and customers, and we have seen initial results in brand building, terminal sales and pipeline governance, and our pipeline order and customer satisfaction have been significantly improved.

3. The new retail and foreign trade segment continued to make efforts, and multi-channel marketing control realized its goals. There was breakthrough progress in the Group's new retail self-operated platform, achieving a multi-model parallel development and a two-pronged development of pharmaceuticals plus health products. In terms of foreign trade, the Group completed the registration of Zheng Gu Shui (正骨水) and Grosvenor Momordica and Chrysanthemum Granules (羅漢果菊花顆粒) in Indonesia, and as of the end of December 2021, the Group's products have been sold to 28 countries, and the products of Consun and Yulin Pharmaceutical series have entered into the international market.

4. Breakthrough progress was also made in the admission of drug catalogues:

1) Jigucao Capsules (雞骨草膠囊) and Pain-relieving Antidiarrheal Capsules (緩痛止瀉軟膠囊) were included in the National Medical Insurance Drug Catalogue (國家醫保目錄) after negotiation, and six products including the Kidney Repair and Edema Alleviation Granules and Zheng Gu Shui have been released from medical insurance restrictions. As of December 2021, a total of 66 products have been included in the Drug Catalogue for National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2021) (《國家基本醫療保險、工傷保險和生育保險藥品目錄(2021年)》), demonstrating the clinical value of the products of Consun Pharmaceutical series.

2) Five star products, including Zheng Gu Shui, Yunxiang Windeliminating and Pain-relieving Tincture (雲香祛風止痛酊), Jigucao Capsules, Shiduqing Capsule (濕毒清膠囊) and Shiduqing Tablets (濕毒清片), were selected in the 2021 Recommended List of Guangxi Famous and Excellent Industrial Products (《廣西名優工業產品推薦目錄》) published by the Department of Industry and Information Technology of Guangxi Zhuang Autonomous Region, and the "Preparation Method of Zheng Gu Shui" was selected as the sixth batch of representative items of intangible cultural heritage in Yulin City, fully demonstrating the hard-core strength of products of Consun and Yulin Pharmaceutical series.

II. Progress of R&D and innovation

Based on the R&D strategy of "independent and joint R&D at the same time", the Group has made new progress in independent R&D and has opened up a new situation in cooperative R&D as follows:

1. Independent R&D

As for independent R&D, consistency evaluation of iopamidol has successfully passed production verification; the interim trial of iodixanol and perfluoropropane lipid microspheres (華聲顯), which is the first project under research using ultrasound microbubble, were completed, and the R&D progress has exceeded expectations; the taste correction project of the Kidney Repair and Edema Alleviation Granules has completed process validation and stability study and has been submitted to the Guangdong Provincial Medical Products Administration for filing and the filing result of "filed" has been announced by the National Medical Products Administration; the interim trial of lanthanum carbonate active pharmaceutical ingredients was completed; the phase II clinical study of Astragali Powder Pellet (黃芪散微丸) was completed with over 60% of cases enrolled. We are striving to complete the filing and registration of the consistency evaluation of Gadopentetic Acid Dimeglumine Salt Injection (釓噴酸葡胺注射液), iopamidol injection (碘帕醇注射液) and iodixanol injection (碘克沙醇注射液) within 2022, and achieve 100% case enrollment in the Phase II clinical study of Astragali Powder Pellet.

2. Cooperation in R&D

1) The Group has joined hands with WuXi AppTec, Brilliant Pharmaceutical and other industry leaders in the R&D of innovative kidney drugs and contrast medium products as well as the guarantee of active pharmaceutical ingredients, and has launched a new mode of strategic cooperation, which were also important milestones in the R&D of innovative drugs and a new starting point for the Group's sustainable development in the future. The Group has signed a 10-year term strategic cooperation agreement with WuXi AppTec, during which WuXi AppTec will give priority to us in the development of the world's leading innovative small molecule chemical drugs for nephropathy in China, and we have already commenced cooperation on three projects. As the R&D pipeline of contrast medium of Brilliant Pharmaceutical covers most of iodine contrast medium, gadolinium contrast medium preparation and active pharmaceutical ingredients, and it has strong strength and fast progress in R&D, it is consistent with the development of our business segment of contrast medium. At present, the joint project of iopromide injection has completed the interim trial.

2) By joining hands with Macau University of Science and Technology, we have completed all the work of the Guangdong Provincial Science and Technology Project themed "Research on the Active Ingredients and Mechanism of Kidney Repair and Edema Alleviation Granules on Preventing Proteinuria in Diabetic Kidney Diseases" in the Joint Innovation Area of Guangdong, Hong Kong and Macau and are ready to complete the project acceptance. This project received unanimous praise from the Science and Technology Development Fund of Macao Government.

3) We have achieved the phrasal goals for the collaboration with Shenzhen Institute of Advanced Technology of the Chinese Academy of Sciences. The "drug-eluting micro-bubble" research has completed the contracted work and realized the phrasal development goals ahead of schedule. It has been proven in animal studies that the drug can be targeted and released at the tumor site with good biocompatibility, which can effectively improve the survival rate of animals.

III. Strategic deployment measures

1. Construction of production bases

Accelerating the construction of Horgos production base in Xinjiang and continuously improving the Group's production capacity layout.

In response to the national strategy of the development of Xinjiang and the development of Horgos into the major port on the Eurasia Continental Bridge Corridor under the "Belt and Road" initiative and to cope with the current challenges in the external environment such as the complicated and ever-changing policies of the domestic pharmaceutical market and rising costs, Consun Pharmaceutical (Inner Mongolia) Co., Ltd., a wholly-owned subsidiary of the Company, has established a wholly-owned subsidiary, Consun Pharmaceutical (Horgos) Co., Ltd., in Horgos, Xinjiang based on the preliminary on-site inspection, investigation and research study on the Horgos Economic Development Zone in Xinjiang.

Through the establishment of a company and the construction of a production base in Northwest China, the Group can enhance, improve and optimize the deployment of its industrial bases, expand the product coverage in various provinces in Northwest China and foster a balanced layout of production bases covering the entire country by shortening the transportation radius (Guangzhou base, Inner Mongolia base, Yulin base and Horgos base). Meanwhile, the Group can increase the local purchases by fully leveraging the advantages of the diverse and abundant supply of Chinese medicines in Northwest China. In addition, the vigorous efforts of China and Horgos in developing the industries of commerce, trade and logistics provide strong support for solving transportation and logistics efficiency problems in the border regions.

In addition to the above factors, according to the Notice of the Ministry of Finance, the State Administration of Taxation, the National Development and Reform Commission and the Ministry of Industry and Information Technology on Enterprise Income Tax Incentives Directory for Encouraged Industries in Poverty Areas of Xinjiang (Cai Shui [2021] No. 42) (《財政部、税務總局、發展改革委、工業和信息化部關於印發新疆困難地區重點鼓勵發展產業企業所得税優惠目錄的通知》(財税[2021]42號)) and the Notice of the Ministry of Finance and the State Administration of Taxation on Income Tax Incentives Policy for Newly-established Enterprises in Poverty Areas of Xinjiang and Kashi and Horgos as Two Special Economic Development Zones (Cai Shui [2021] No. 27) (《財政部、税務總局關於新疆困難地區及喀什、霍爾果斯兩個特殊經濟開發區新辦企業所得税優惠政策的通知》(財税[2021]27號)), Consun Pharmaceutical (Horgos) Co., Ltd. is entitled to various supports, including the "five reductions and five exemptions" tax incentives for ten years, which will be beneficial to the development of Consun Pharmaceutical (Horgos) Co., Ltd. over the next five to ten years and will generate significant benefit on its return of profits.

The planning and construction of the production base in Horgos started in 2021. Despite the unfavorable conditions such as epidemic control and construction difficulties in winter, nearly 80% of the construction work has now been completed, and trial operation and production are expected to start in the first half of 2022.

2. Cooperation with Conba

On 7 January 2022, the Company published an announcement, announcing the signing of a strategic cooperation framework agreement with Conba (600572.SH), an A-share listed company and also one of the top 50 companies in the domestic Chinese medicine industry, under which the two parties will develop a strong alliance and an all-round strategic cooperation through equity cooperation and business cooperation (marketing cooperation, R&D cooperation, asset and business integration), etc.

In terms of equity cooperation, Conba intends to invest in Consun Pharmaceutical through appropriate means when opportunities arise and hold its equity for a long term; in terms of marketing cooperation, Conba intends to entrust the sales team of Consun Pharmaceutical with the sales rights of the hospital market in China for the products of the relevant specialty areas owned by companies under Conba; in terms of digital marketing, Conba will assist and support Consun Pharmaceutical in establishing a digital platform for the marketing of pharmaceutical and health products and its business development. Consun Pharmaceutical is willing to cooperate with Conba in all aspects of branding and marketing of its OTC products. In terms of R&D cooperation, both parties will transfer to each other the existing projects and interests in core areas of strength and those under research when opportunities arise, and both parties will jointly promote the introduction of innovative drug pipelines in the urological system (mainly nephrology) to Consun Pharmaceutical. In terms of asset and business cooperation, the integration of assets and businesses will be carried out on the basis of the principle that it will help to significantly enhance the core strengths and competitiveness of the other party.

The cooperation is based on the common industry foundation and mission of Conba and Consun Pharmaceutical, and will have a positive impact on the business of both parties.

IV. Brand Building and Shareholder Returns

1. On the 2021 China Brand Value Evaluation List, the brand value of Consun Pharmaceutical reached RMB4,984 million and the brand value of Yulin Pharmaceutical reached RMB1,360 million. Consun Pharmaceutical Group ranked 32nd on the "China's TOP 100 Chinese Medicine Enterprises List (中國中藥企業TOP100排行榜)"; Uremic Clearance Granules and Shiduqing Capsule were listed among "China's Pharmaceutical Brands" for many years consecutively. With its strong overall corporate strength and brand influence, Consun Pharmaceutical won the "Best Brand Value Award" of the Best Listed Companies in Greater China by Gelonghui, and Uremic Clearance Granules and Shiduqing Capsule were on the list of Outstanding Chinese National Medicine Brand Enterprises in 2020. Consun Pharmaceutical and Yulin Pharmaceutical have been granted with numerous awards and their brand influence continues to increase.

2. The Company has been examining the situation and making timely use of internal funds to repurchase shares in the normal course of business, and repurchased a total of 10,115,000 shares in 2021, which were subsequently cancelled on 26 January 2022, representing approximately 1.2% of the total share capital before the repurchase.

3. In order to recognize the full support of all shareholders, the Board of the Company also proposed to distribute a final dividend of HKD0.2 per share for the year ended 31 December 2021. Coupled with the interim dividend of HKD0.1 per share, the total dividend for the year was HKD0.3 per share, representing approximately 33.3% of the earnings for the year.

V. Outlook

Looking ahead to 2022, the COVID-19 pandemic is expected to end and the global economic recovery is imminent. Although the pharmaceutical market is facing many uncertainties, the pharmaceutical industry, as a sunrise industry that never declines, is full of vitality. As we bid farewell to the fruitful Year of the Ox and enter into the vibrant Year of the Tiger, Consun Pharmaceutical will continue to expand and advance with the "strong bearing of an ox, and the piercing gaze of a tiger", not only working silently like the ox and moving forward with strength, but also examining the situation with a far-sighted and sharp gaze like the tiger, seizing the opportunity to create value.

1. The Group's original intention of "building flagship products for kidney disease" remains unchanged and its prospects are unlimited. According to the statistics, the global prevalence of CKD (chronic kidney disease) has reached 14.3%, with approximately 850 million patients all over the world, and it is expected that CKD will become the fifth worldwide leading cause of death by 2040. In China, the prevalence of CKD among people aged 18 or above is about 10.8%. According to the latest census results in 2021, it is estimated that there are currently about 150 million CKD patients in China and the Uremic Clearance Granules, as an exclusive product with proven efficacy in the treatment of CKD through evidence-based research, have a wide market prospect and huge potential. Although the overall growth rate of Chinese medicines continued to slow down in 2021 due to the epidemic, Consun Pharmaceutical Group achieved significant growth in its Uremic Clearance Granules and the Kidney Repair and Edema Alleviation Granules against adversity compared with similar products, demonstrating the good growth and anti-risk capability of the Group's nephrology products. In 2022, the State will gradually restore the scope of the reimbursement for drug included in the medical insurance catalogue to the scope of product instruction, and the Group's major competing products in the nephrology product line will be subject to restrictions on medical insurance reimbursement to varying degrees. As the Group's Uremic Clearance Granules belongs to a national essential medicine and Class A drug under medical insurance policy with no prescription restrictions while the Kidney Repair and Edema Alleviation Granules belongs to Class B drug under medical insurance policy without prescription restrictions, the Group can seize the favorable opportunity to increase product differentiation and achieve further rapid growth.

2. Centralized pharmaceutical procurement has become a major trend, and Consun Pharmaceutical has obvious advantages in its main products. Six batches and seven rounds of national centralized procurement have been launched. The future centralized procurement will be expanded towards biological drugs and Chinese medicines. At present, the centralized procurement of Chinese medicines is mainly conducted by cross-province alliances. The Uremic Clearance Granules and similar competitive products are currently included in the centralized procurement catalogues of individual cross-province alliances. However, the Uremic Clearance Granules are exclusive products and have been proven to be effective in delaying the progression of CKD in high quality RCT studies. In 2020, it became the only Chinese medicine that was "strongly recommended" in the Clinical Application Guidelines for Chinese Medicines in the Treatment of Stage 3-5 Chronic Kidney Diseases (Non-dialysis) (中成藥治療慢性腎臟病 3-5 期(非透析)臨床應用指南) for delaying the progression of CKD; while the competitive products in this category with unclear mechanism of action and no quality evidence-based research conducted can only reduce creatinine for a short period of time; and some competitive products containing cordyceps or single-ingredient with no syndrome differentiation conducted by Chinese medicine practitioner and evidence-based research conducted are only used as adjunctive medicines to improve patients' individual symptoms and are only "weakly recommended" in the guidelines. Besides, some of the competitive products are not included in the guidelines due to insufficient clinical evidences. Therefore, compared with its competitive products, the Uremic Clearance Granules has better clinical evidence of its effectiveness and is believed to be in a better position to control the price reduction within an affordable range in the cross-province alliance centralized procurement to ensure sustainable growth of the Uremic Clearance Granules.

3. Benefiting from the new national primary care and chronic disease policy, we will be able to achieve greater business volume growth. The State promotes the "hierarchical diagnosis and treatment system", which proposes primary initial diagnosis, and introduces policies such as the 986 policy on essential medicines and the increase in the proportion of medical insurance reimbursement for grass-root medical institutions, encouraging patients to visit grass-root medical institutions and patients with chronic diseases to shift from secondary and tertiary hospitals to grass-root medical institutions for chronic disease management and consultation, which will greatly enhance the potentials of these institutions. The Group has been promoting its products in grass-root medical institutions for many years and can leverage on the favourable policies of the State for grass-root medical institutions and the characteristics of the Uremic Clearance Granules as a national essential medicine to achieve rapid growth of the product in these medical institutions. In 2021, the National Health Commission published the "Notice on the Long-term Prescription Management Regulations (Trial)" (《關於印發長期處方管理規範(試行)的通知》), as CKD is a chronic disease, the Uremic Clearance Granules and the Kidney Repair and Edema Alleviation Granules can also effectively take advantage of the national policy on long-term prescriptions for chronic diseases to promote the use of the products in full doses and full course of treatment to gain new incremental volume.

4. In the future, the Group will continue to improve and optimize the management and incentive mechanisms, continue to strengthen and deepen the development in nephrology, expand imaging, cultivate the product line of gynaecology and paediatrics drugs and achieve breakthrough in OTC; strengthen the research and development capability of new product and academic promotion capability of the Consun Pharmaceutical Segment, build the brand marketing value and terminal marketing capability of the Yulin Pharmaceutical Segment; seize market opportunities and policy dividend, and expand the pattern of responding to competition and breakthrough development to the entire industrial chain. Guided by the philosophy of "one will go fast if travelling alone, but go far when travelling with others", we will also be able to work with our outstanding peers to empower each other in the areas of raw material supply, production synergy, R&D collaboration, digital marketing and patient services.

What we do today depends on how we judge the future, and how the future will be depends on how we design it today. The year 2022 marks the 25th anniversary of the founding of Consun Pharmaceutical. Time flies like an arrow. Over the past 25 years, Consun Pharmaceutical has grown from scratch, from small to large, from weak to strong and from single-business to diversified, and has achieved remarkable results. The potential energy accumulated over past 24 years of development will be transformed into momentum for us to reach new heights. We are ready to create and witness new glories together with our customers, investors and employees.

An Meng
Chairman

Hong Kong, 23 March 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

For the year of 2021, the Group's revenue was RMB2,044,660,000 representing an increase of approximately 16.6% as compared with RMB1,752,830,000 for 2020. Categorized by product lines, sales of kidney medicines recorded an increase of approximately 17.1% as compared with last year, among which, Uremic Clearance Granules ("**UCG**") remained the Group's key product, and became the No. 1 brand for Chinese medicines for kidney diseases; sales of medical contrast medium recorded an increase of approximately 3.8% as compared with last year, maintained a leading position in the domestic medical contrast medium market for magnetic resonance imaging; sales of orthopaedics medicines recorded a decrease of approximately 17.7%; sales of dermatologic medicines recorded an increase of approximately 108.5%; sales of hepatobiliary medicines recorded an increase of approximately 86.8%; sales of the gynaecology and paediatrics drugs recorded an increase of approximately 13.9%. The increase in overall sales revenue was mainly due to the Group's constant commitment to expanding product markets and developing sales network across China.

Gross Profit and Gross Profit Margin

For the year of 2021, the Group's gross profit was RMB1,527,336,000, representing an increase of approximately 15.6% as compared with RMB1,321,671,000 for 2020. The increase in gross profit was mainly attributable to the increase in sales. For the year of 2021, the Group's average gross profit margin was approximately 74.7%, representing a decrease of 0.7% as compared with the 75.4% for last year, which was mainly attributable to an increase in costs as a result of the increase in the prices of certain raw materials during the year.

Other Income

For the year of 2021, the Group's other incomes were RMB63,384,000, which mainly included government grants, interest income and net exchange gain. Compared with RMB58,826,000 for 2020, the increase of approximately 7.7% was mainly due to the increase in interest incomes.

Distribution Costs

For the year of 2021, the Group's distribution costs were RMB620,041,000, representing an increase of approximately 14.2% as compared with RMB542,930,000 for 2020. The increase in distribution costs was mainly due to increased marketing and academic promotion campaigns to expand the marketing and distribution networks.

Administrative Expenses

For the year of 2021, the Group's administrative expenses were RMB279,956,000, representing an increase of approximately 37.9% as compared with RMB203,067,000 for 2020. The increase in administrative expenses was attributable to the increase in research and development expenses and the provision for impairment of inventories during the year.

Reversals/(Recognition) of Impairment Loss on Trade and Other Receivables

For the year of 2021, the Group's reversal of impairment loss on trade and other receivables was RMB18,043,000, as compared with a recognition of impairment loss of RMB29,363,000 for 2020, which was mainly due to the decrease in the gross carrying amounts of trade receivables past due over 1 year.

Finance Costs

For the year of 2021, finance costs were RMB12,905,000, representing a decrease of approximately 39.7% as compared with RMB21,401,000 for 2020, which was mainly attributable to the decrease in interest rate of borrowings during the year.

Income Tax

For the year of 2021, the Group's income tax expenses were RMB108,744,000, representing an increase of approximately 6.6% as compared with RMB101,993,000 for 2020, which was mainly due to the increase in profit before taxation, tax concessions and the increase in dividend withholding tax during the year. The effective tax rate (income tax expenses divided by profit before taxation) decreased by approximately 1.9% from 17.5% for 2020 to 15.6% for 2021. The decrease was mainly due to the preferential income tax relief and exemption policies enjoyed by Consun Pharmaceutical (Horgos) Co., Ltd. in 2021.

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

For the year of 2021, the Group's annual profit was RMB590,172,000, representing an increase of approximately 18.3% as compared with RMB498,788,000 for 2020. The basic earnings per share increased by approximately 21.3% from RMB0.61 for 2020 to RMB0.74 for 2021. The diluted earnings per share increased by approximately 19.7% from RMB0.61 for 2020 to RMB0.73 for 2021.

LIQUIDITY AND FINANCIAL RESOURCES

Trade Debtors and Bills Receivable

As at 31 December 2021, the balance of trade debtors and bills receivable was RMB351,226,000, representing a decrease of approximately 21.7% as compared with the balance of RMB448,540,000 as at 31 December 2020. Trade receivables turnover days for 2021 were 71.4 days, decreased by 54.8 days from 126.2 days for 2020, which was mainly due to enhanced management in trade debtors.

Inventories

As at 31 December 2021, the balance of inventories was RMB243,035,000, representing an increase of approximately 6.9% as compared with the balance of RMB227,374,000 as at 31 December 2020. Inventory turnover days for 2021 were 165.9 days, decreased by 19.5 days from 185.4 days for 2020, which was mainly due to the enhanced management in inventories during the year.

Trade Payables

As at 31 December 2021, the balance of trade payables was RMB66,638,000, representing an increase of approximately 30.9% as compared with the balance of RMB50,889,000 as at 31 December 2020. Trade payables turnover days for 2021 were 41.5 days, decreased by 3.5 days from 45.0 days for 2020, which was mainly due to the acceleration in processing trade payables.

Cash Flows

For the year of 2021, the Group's net cash generated from operating activities was RMB725,537,000, representing a decrease of approximately 16.3% as compared with RMB867,058,000 for 2020, which was mainly attributable to the increase in wages and salaries expenses, payment for operational procurement and tax expenses during the year. For the year of 2021, the Group's net cash used in investing activities was RMB298,305,000, representing an increase of approximately 1,060.6% as compared with RMB25,703,000 for 2020, which was mainly due to the increase in wealth management products of certificates of large-sum deposit issued by the bank and expenditure for acquisition of plant and equipment. For the year of 2021, the Group's net cash used in financing activities was RMB166,659,000, representing a decrease of approximately 40.4% as compared with the net cash used in financing activities of RMB279,804,000 for 2020, which was mainly due to the decrease in share buy-back during the year.

Cash and Bank Balances and Borrowings

As at 31 December 2021, the Group's cash and bank balances were RMB2,196,323,000, representing an increase of approximately 13.2% as compared with RMB1,940,273,000 as at 31 December 2020. As at 31 December 2021 the Group's total loans and borrowings amounted to RMB599,302,000, representing an increase of approximately 9.1% as compared with RMB549,414,000 as at 31 December 2020, which was mainly due to additional bank loans during the year.

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 2021. 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 2021 was 22.9% (31 December 2020: 24.7%). The decrease in gearing ratio was mainly due to the increase in total equity attributable to equity shareholders as a result of the increase in current assets during the year.

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. The Group faces exchange rate risk 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 2021, the Company issued 4,593,118 ordinary shares pursuant to employees' exercise of share options granted under the Share Option Scheme (adopted on 2 December 2013) (2020: Nil).

In 2021, the Company repurchased 10,115,000 shares (2020: 45,907,000 shares) of its own ordinary shares through the Stock Exchange at a total consideration of approximately HKD36,836,000 (approximately RMB30,151,000) and all of these repurchased shares were cancelled on 26 January 2022.

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 2021, the Group had capital commitments of approximately RMB482,495,000 (31 December 2020: RMB473,870,000).

INFORMATION ON EMPLOYEES

As at 31 December 2021, the Group hired a total of 2,768 employees (31 December 2020: 2,583 employees). The total staff costs (including the directors' remuneration) for the year ended 31 December 2021 was RMB365,996,000 (2020: RMB283,943,000). The salaries of the employees were determined with reference to individual performance, work experience, qualification and current industry practices.

On top of basic salaries, bonus is payable by reference to the Group's performance as well as individual's performance. Other staff benefits include contributions to Mandatory Provident Fund in Hong Kong and various retirement benefits schemes and other relevant insurance, including pension funds, medical insurance and unemployment insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the prevailing regulatory requirements of the PRC. Save as disclosed above, the Group has not set up or participated in any other pension scheme(s). 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 Group 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 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 its subsidiaries, during the year ended 31 December 2021, 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 above and elsewhere 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 2021.

PLEDGE OF ASSETS

As at 31 December 2021, four of the Group's patents with a carrying amount of approximately RMB2,500,000 were pledged as collateral for the Group's borrowings (as at 31 December 2020: Nil).

CONTINGENT LIABILITIES

As at 31 December 2021, the Group did not have any material contingent liabilities (31 December 2020: Nil).

PRINCIPAL RISKS AND UNCERTAINTIES

Management continues to manage the Group's key risk exposures, including operational risks (e.g. ensuring high quality of medicine 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 developments of national policies in respect of the pharmaceutical industry, which is a key uncertainty facing the Group, and formulates and adjusts the relevant policies of the Group 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 practice which are considered in the performance appraisal process.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the year of 2021, there was no incidence of significant non-compliance of laws and regulations that is relevant to the Group's operations.

CHANGES IN INDUSTRIAL POLICIES AND THEIR EFFECT

1. Introduction and Implementation of Supporting Documents for New Drug Administration Law

After the newly revised Drug Administration Law took effect on 1 December 2019, Monitoring and Administration Measures on Drug Manufacturing and Administration Measures on Drug Registration were promulgated successively in 2020, and Administration Measures for Post-Approval Changes of Drug (Trial) and the corresponding technical guidelines for the research on changes of marketed pharmaceutical products were promulgated in 2021, which have further specified the subject responsibility of marketing authorization holders (MAH) and improved related system, revised various standards of research and development technology and registration management of chemical drugs, biological drugs, Chinese medicines and raw, auxiliary and packaging materials for chemical drugs and continued to reform and enhance the evaluation and approval system and manufacturing management, so as to clarify the classification and registration measures at source and strengthen the manufacturing regulation. The system of MAH will be beneficial to the Group's resource consolidation and conducive to mitigating research and development risks and shortening the time of launching new products. The implementation of subject responsibility of MAH will lead to more standardized requirements regarding corporate research and development and manufacturing stages. On the one hand, the Group implemented subject responsibility of MAH and strictly complied with relevant requirements, on the other hand, the Group fully leveraged the guidelines of national policies for internal resource consolidation of the Group so as to improve operating efficiency and reduce operating costs.

2. Adjustments on the National Medical Insurance Drug Catalogue

On 3 December 2021, the 2021 Drug Catalogue for National Basic Medical Insurance, Trade and Commerce Insurance and Maternity Insurance (hereinafter referred to as the "**National Medical Insurance Drug Catalogue**") was issued, and officially took effect nationwide since 1 January 2022. The National Medical Insurance Drug Catalogue included 2,860 kinds of drugs in total, comprising 1,486 kinds of Western medicines and 1,374 kinds of Chinese medicines. The Group has a total of 66 drug products included in the 2021 National Medical Insurance Drug Catalogue, of which, two proprietary Chinese medicines, namely Jigucao Capsule and Pain-relieving Anti-diarrheal Soft Capsule, are national negotiated drugs and neither of them is subject to restrictions on hospital use and reimbursement. In 2021, the National Healthcare Security Administration (NHSA) issued the Guiding Opinions on Establishing and Improving the "Dual-Channel" Management Mechanism for Negotiated Medicines under the National Medical Insurance (《關於建立完善國家醫保談判藥品"雙通道"管理機制的指導意見》) and the Notice on Continuing to Implement Negotiated Medicines in Response to the Normalized National Medical Insurance Negotiations (《關於適應國家醫保談判常態化持續做好談判藥品落地工作的通知》), under which designated retail pharmacies are included in the secured supply of negotiated medicines on top of those supplied by designated medical institutions. Patients will be able to purchase the relevant national negotiated medicines in both hospitals and pharmacies with their prescriptions and entitled to the coverage of the unified medical insurance payment policy. On 31 December 2021, National Administration of Traditional Chinese Medicine of NHSA issued Guiding Opinions on Medical Insurance Support for the Heritage and Innovative Development of Traditional Chinese Medicine (《關於醫保支持中醫藥傳承創新發展的指導意見》), which requires the inclusion of eligible Chinese medicine beverages, Chinese medicines and Chinese medicine preparations in medical institutions into the National Medical Insurance Drug Catalogue in accordance with regulations. The preparation and use of Chinese medicines that have been included in the catalogue through national negotiations will be included in the monitoring and evaluation. Leveraging the "dual-channel" drug management mechanism to expand the pipeline of drugs for insured patients to designated retail pharmacies and better ensure the drug needs of the insured patients. This will enable the Group to broaden the pipeline of nationally negotiated drugs and enhance accessibility.

3. Centralized Quantity Procurement Policy of the Government

As of December 2021, the Chinese government has organized six centralized quantity pharmaceutical procurements, of which the first five procurements were relating to chemical drugs, and the sixth procurement was relating to insulin particularly. In 2021, several major documents have set out requirements for quantity procurement, which included Opinions on Promoting Normalized and Systemized Centralised Quantity Pharmaceutical Procurement (《關於推動藥品集中帶量採購工作常態化制度化開展的意見》), Notice on the Publication of the Major Tasks for Deepening the Reform of the Medical and Health System in 2021 (《關於印發深化醫藥衛生體制改革2021年重點工作任務的通知》), the 14th Five-Year Plan for Universal Healthcare Security (《"十四五"全民醫療保障規劃》) and Implementation Opinions of the Steering Group of the State Council on Deepening the Reform of the Medical and Health System about Deepening the Reform of the Medical and Health System through the Experience of Sanming City, Fujian Province (《國務院深化醫藥衛生體制改革領導小組關於深入推廣福建省三明市經驗深化醫藥衛生體制改革的實施意見》). Although no product of the Group has been included in centralised quantity procurement, as the scope of centralized quantity procurement is continuously expanding, the Group may also be involved. Being aware of such a trend, the Group has begun to deploy, and actively responded to policy changes through a series of measures such as continuously optimizing the business structure, promoting transformation and upgrade, accelerating the research and development of new products and reasonably controlling and managing costs.

4. ***The Heritage and Innovative Development of Traditional Chinese Medicine Supported by China with a Promising Future for Traditional Chinese Medicine***

For four consecutive years, the State Council's Report on the Work of the Government has mentioned the support for the development of traditional Chinese medicine. The State Council, the National Healthcare Security Administration, National Healthcare Security Administration, National Health Commission, National Administration of Traditional Chinese Medicine, National Medical Products Administration and other departments have issued documents to promote the heritage and innovative development of traditional Chinese medicine, and have issued and implemented a number of measures to promote the development of traditional Chinese medicine. As a kind of unique health resource in China, traditional Chinese medicine plays an important role in the economic and social development of the country. With the further development of China's new industrialisation, informatisation, urbanisation and modernisation of agriculture, the accelerated ageing of the population and the flourishing development of the healthcare service industry, there is an increasing demand for traditional Chinese medicine services from the public, and there is an urgent need to inherit, develop and make good use of traditional Chinese medicine, and to give full play to its role in deepening the reform of the medical and health system for the benefit of human health. It is expected that the public acceptance of traditional Chinese medicine will be considerably increased in the foreseeable future, thereby promoting a good pattern for the whole society to develop traditional Chinese medicine in concerted efforts.

OTHER INFORMATION

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

In 2021, the Company repurchased 10,115,000 shares of its own ordinary shares through the Stock Exchange at a total consideration of approximately HKD36,836,000 (approximately RMB30,151,000) and all of these repurchased shares were cancelled on 26 January 2022.

As of 2021, the Company issued a total of 4,593,118 ordinary shares pursuant to employees' exercise of share options granted under the Share Option Scheme (adopted on 2 December 2013) at a consideration between HKD3.28 and HKD4.476 per share. The weighted average closing price of the Company's shares immediately before the dates on which such share options were exercised is approximately HKD5.38.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2021.

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 the 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 the 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 (the "**Code Provisions**") as contained in Appendix 14 to the Listing Rules during the year ended 31 December 2021.

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 2021.

Audit Committee

The Company has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with paragraph D3.3 and D3.7 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. CHEN Yujun (Chairlady), Mr. FENG Zhongshi and Mr. SU Yuanfu. 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, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as disclosed in this 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 provided with updates 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 unauthorised 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 meet business objectives, 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; (5) to continuously follow up and supervise the implementation of relevant measures against the recommended improvements; (6) continuously update and improve the relevant management systems, authorization manuals and operating procedures to enhance management normalization and efficiency; and (7) establishing a more comprehensive investor relationship management system to ensure investors' understanding of the Company's situation and to protect investors' right to know to the greatest extent.

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.

Non-adjusting Events After the Reporting Period

After the end of the reporting period, the Directors proposed to declare a final dividend. Further details are disclosed in note 7 of this announcement.

After the end of the reporting period, the Company repurchased 590,000 shares of its own ordinary shares through the Stock Exchange at a total consideration of approximately HKD2,649,000 (approximately RMB2,168,000). The Company cancelled 10,705,000 shares on 26 January 2022.

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

Annual General Meeting

The annual general meeting will be held on Friday, 27 May 2022. 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 HKD0.10 per share in 2021, amounting to approximately RMB66,874,000 in total (2020 interim dividend: HKD0.08 per share, amounting to approximately RMB58,458,000 in total). The Board proposed to declare a final dividend of HKD0.20 per share, totally approximately RMB128,691,000 for the year ended 31 December 2021 (2020 final dividend: HKD0.20 per share, totally approximately RMB133,950,000). The proposed final dividend is subject to approval by the shareholders of the Company at the annual general meeting to be held on Friday, 27 May 2022 and, if approved, is expected to be paid on or about Friday, 17 June 2022 to shareholders whose names appear on the register of members of the Company on Friday, 10 June 2022. 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 Friday, 27 May 2022, the Company's register of members will be closed from Tuesday, 24 May 2022 to Friday, 27 May 2022 (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 Monday, 23 May 2022.

In addition, to determine shareholders' entitlement to the final dividend, the Company's register of members will be closed from Tuesday, 7 June 2022 to Friday, 10 June 2022 (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, 6 June 2022.

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 2021 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 Meng
Chairman

Hong Kong, 23 March 2022

* *For identification purpose only*

As at the date of this announcement, the Board comprises Mr. An Meng, Ms. Li Qian, Professor Zhu Quan and Mr. Xu Hanxing as executive Directors; Ms. Zhang Lihua as a non-executive Director; Mr. Su Yuanfu, Mr. Feng Zhongshi and Ms. Chen Yujun as independent non-executive Directors.