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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1681)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2016 amounted to RMB451,852,000, representing an increase of approximately 16.7% as compared with the six months ended 30 June 2015.
- Profit attributable to equity shareholders of the Company for the six months ended 30 June 2016 amounted to RMB145,397,000, representing an increase of approximately 20.0% as compared with the six months ended 30 June 2015.
- Basic and diluted earnings per share for the six months ended 30 June 2016 amounted to RMB0.15, representing an increase of approximately 22.3% as compared with the six months ended 30 June 2015.
- The Board has declared the payment of an interim dividend of RMB0.045 per share for the six months ended 30 June 2016.

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Consun Pharmaceutical Group Limited (the “**Company**”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2016 (the “**Interim Results**”). The audit committee of the Company (the “**Audit Committee**”) and the Group’s external auditor have reviewed the Interim Results.

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

For the six months ended 30 June 2016 – unaudited

(Expressed in Renminbi)

		For the six months ended 30 June	
	<i>Note</i>	2016	2015
		RMB'000	RMB'000
Revenue	5	451,852	387,278
Cost of sales		<u>(95,048)</u>	<u>(76,404)</u>
Gross profit		356,804	310,874
Other revenue	6	3,331	17,197
Other net losses	6	(719)	(1,554)
Distribution costs		(136,271)	(116,615)
Administrative expenses		<u>(48,872)</u>	<u>(58,384)</u>
Profit from operation		174,273	151,518
Share of profit of an associate	11	<u>3,865</u>	–
Profit before taxation	7	178,138	151,518
Income tax expenses	8	<u>(32,741)</u>	<u>(30,328)</u>
Profit for the period attributable to equity shareholders of the Company		145,397	121,190
Other comprehensive income for the period that may be reclassified to profit or loss:			
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC"), net of tax		<u>214</u>	<u>60</u>
Total comprehensive income for the period attributable to equity shareholders of the Company		<u>145,611</u>	<u>121,250</u>
Earnings per share (RMB yuan)			
– Basic	9	<u>0.15</u>	<u>0.12</u>
– Diluted	9	<u>0.15</u>	<u>0.12</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 – unaudited

(Expressed in Renminbi)

		At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	<i>10</i>	219,583	223,773
Lease prepayments		23,261	23,574
Other investment		2,600	2,600
Interest in an associate	<i>11</i>	672,136	636,659
Prepayment for equity investment	<i>11</i>	62,458	62,458
Deferred tax assets		10,825	8,639
Total non-current assets		990,863	957,703
Current assets			
Inventories	<i>12</i>	48,217	71,014
Trade and other receivables	<i>13</i>	401,484	399,187
Cash and cash equivalents	<i>14</i>	455,873	489,987
Total current assets		905,574	960,188
Current liabilities			
Trade and other payables	<i>15</i>	184,472	201,235
Deferred income		436	436
Current tax payables		27,945	27,679
Total current liabilities		212,853	229,350
Net current assets		692,721	730,838
Total assets less current liabilities		1,683,584	1,688,541
Non-current liabilities			
Deferred income		11,363	11,582
Deferred tax liabilities		39,783	40,204
Total non-current liabilities		51,146	51,786
Net assets		1,632,438	1,636,755
Capital and reserves			
Share capital	<i>17(b)</i>	76,294	78,074
Reserves		1,556,144	1,558,681
Total equity		1,632,438	1,636,755

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

1 BASIS OF PREPARATION

The unaudited interim financial information was extracted from the interim financial report of the Group for the six months ended 30 June 2016.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 30 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of the changes in accounting policies are set out in note 2.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- *Annual Improvements to HKFRSs 2012-2014 Cycle*
- Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*

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

Annual Improvements to HKFRSs 2012-2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, *Interim financial reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group’s interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group’s interim financial report.

3 SEGMENT REPORTING

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of sales of pharmaceutical products. Therefore, the Group's management considers that there is only one operating segment under the requirements of HKFRS 8, *Operating Segments*. In this regard, no segment information is presented for the period.

No geographic information is presented as the Group's operating profit is entirely derived from its business activities in the PRC.

4 SEASONALITY OF OPERATION

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

For the twelve months ended 30 June 2016, the Group reported revenue of RMB895,682,000 (twelve months ended 30 June 2015: RMB797,739,000), and gross profit of RMB716,496,000 (twelve months ended 30 June 2015: RMB632,862,000).

5 REVENUE

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

The amount of each significant categories of revenue recognised during the period is as follows:

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Kidney medicines	348,611	303,002
Contrast medium	66,694	62,658
Others	36,547	21,618
	<u>451,852</u>	<u>387,278</u>

6 OTHER REVENUE AND OTHER NET LOSSES

(a) Other revenue

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Government grants		
– Unconditional subsidies	747	362
– Conditional subsidies	218	218
Interest income	1,483	15,685
Others	883	932
	<u>3,331</u>	<u>17,197</u>

(b) Other net losses

	For the six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Loss on disposal of property, plant and equipment	(687)	(1,554)
Others	(32)	–
	<u>(719)</u>	<u>(1,554)</u>

7 PROFIT BEFORE TAXATION

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

(a) Staff costs:

	For the six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Salaries, wages, bonuses and benefits	71,084	50,708
Contribution to retirement schemes	2,387	2,044
Equity settled share-based payments:		
Share Option Scheme (note 16(a))	2,170	17,401
Share Award Scheme (note 16(b)(ii))	604	119
	<u>76,245</u>	<u>70,272</u>

(b) Other items:

	For the six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Depreciation	8,324	9,256
Amortisation	313	313
Impairment losses recognised/(reversed) for doubtful debts	138	(634)
Operating lease charges	972	302
Research and development costs [#]	5,942	6,897
Cost of inventories [*]	95,048	76,404

[#] During the six months ended 30 June 2016, research and development costs include RMB2,869,000 (six months ended 30 June 2015: RMB2,609,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 7(a) for each of these types of expenses.

^{*} During the six months ended 30 June 2016, cost of inventories include RMB15,865,000 (six months ended 30 June 2015: RMB17,010,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 7(a) for each of these types of expenses.

8 INCOME TAX EXPENSES

	For the six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
Provision for PRC income tax	35,348	28,218
Deferred tax		
Origination and reversal of temporary differences	(2,607)	2,110
	<u>32,741</u>	<u>30,328</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No provision was made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax for six months ended 30 June 2016 (six months ended 30 June 2015: 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.

Consun Pharmaceutical (Inner Mongolia) Co., Ltd. (“**Inner Mongolia Consun**”) and Guangzhou Consun Pharmaceutical Company Limited (“**Guangzhou Consun**”) were qualified as “Advanced and New Technology Enterprise”, thus Inner Mongolia Consun and Guangzhou Consun were entitled to the preferential income tax rate of 15% from 2015 to 2017 and from 2014 to 2016, respectively.

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

As Guangzhou Consun is wholly owned by the Company, the Company can control the payments of dividends made from Guangzhou Consun. According to the Group’s plan and intention of reinvesting its earnings in its PRC business, it will not distribute any earnings of Guangzhou Consun and its PRC subsidiaries generated after 1 January 2014 in the foreseeable future. As at 30 June 2016, the Group has undistributed earnings of the PRC subsidiaries totaling RMB605,962,000 (as at 31 December 2015: RMB449,328,000) which will not be distributed in the foreseeable future. Accordingly, the Company has not provided for the related deferred tax liabilities on the undistributed earnings of the PRC subsidiaries totalling RMB60,596,000 as at 30 June 2016 (31 December 2015: RMB44,933,000).

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB145,397,000 (six months ended 30 June 2015: RMB121,190,000) and the weighted average number of 964,652,000 ordinary shares (six months ended 30 June 2015: 983,705,000 shares) in issue during the interim period.

	For the six months ended 30 June	
	2016	2015
	'000 shares	'000 shares
Issued ordinary shares less treasury shares at 1 January	977,757	990,472
Effect of shares repurchased	(13,105)	(6,767)
	<u>964,652</u>	<u>983,705</u>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB145,397,000 (six months ended 30 June 2015: RMB121,190,000) and the weighted average number of ordinary shares of 964,964,000 (six months ended 30 June 2015: 983,752,000 shares).

	For the six months ended 30 June	
	2016	2015
	'000 shares	'000 shares
Weighted average number of ordinary shares	964,652	983,705
Effect of Awarded Shares under the Share Award Scheme	312	47
	<u>964,964</u>	<u>983,752</u>

For the period ended 30 June 2016 and 2015, the effect of the Company's Share Option Scheme (see note 16(a)) was anti-dilutive.

10 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired items of property, plant and machinery with a cost of RMB4,919,000 (six months ended 30 June 2015: RMB7,395,000).

11 INTEREST IN AN ASSOCIATE AND PREPAYMENT FOR EQUITY INVESTMENT

During the six months ended 30 June 2016, the Group further acquired 3.60% equity interests in Guangxi Yulin Pharmaceutical Group Co., Ltd. (“廣西玉林製藥集團有限責任公司”) (“**Yulin Pharmaceutical**”) from a predecessor shareholder of Yulin Pharmaceutical. The effective equity interests in Yulin Pharmaceutical held by the Group increased from 45.27% as at 31 December 2015 to 48.87% as at 30 June 2016. Consideration for purchasing the 3.60% equity interests was approximately RMB31,612,000, of which RMB4,822,000 had not been paid as at 30 June 2016.

Interest in an associate is accounted for using the equity method in the consolidated financial statements. During the six months ended 30 June 2016, the amount of the Group’s share of profit from the associate in the consolidated financial statements is RMB3,865,000.

On 23 November 2015, the Group entered into a conditional equity transfer agreement with an independent third party agent to further acquire 5.76% equity interest in Yulin Pharmaceutical at a consideration of RMB69,361,000 (“**Proposed Acquisition**”). During 2015, an advance payment of RMB62,458,000 was paid by the Group. As at 30 June 2016, the Proposed Acquisition was not yet completed and the advance payment of RMB62,458,000 made by the Group was recognised as prepayment for equity investment.

In July 2016, the Proposed Acquisition on Yulin Pharmaceutical was completed. Upon the completion of the Proposed Acquisition, Yulin Pharmaceutical became a subsidiary of the Group.

In July and August 2016, the Group entered into a series of equity transfer agreements with certain individual shareholders of Yulin Pharmaceutical to further acquire 16.11% equity interest in Yulin Pharmaceutical at the total consideration of approximately RMB140,439,000.

12 INVENTORIES

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Raw materials	28,864	25,049
Work in progress	13,546	17,197
Finished goods	5,807	28,768
	<u>48,217</u>	<u>71,014</u>

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

	For the six months ended 30 June 2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Cost of inventories sold	94,971	75,891
Write-down of inventories	77	513
	<u>95,048</u>	<u>76,404</u>

13 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Within 3 months	390,313	362,954
3 to 12 months	1,379	749
Trade debtors and bills receivable, net of allowance for doubtful debts	391,692	363,703
Other receivables, prepayments and deposits	9,792	35,484
	401,484	399,187

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

As at 30 June 2016, the Group's trade debtors of RMB35,000 (31 December 2015: RMB19,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that none of the receivables is expected to be recovered. Consequently, specific allowance for doubtful debts of RMB35,000 (31 December 2015: RMB19,000) was recognised.

As at 30 June 2016, the Group's other receivables of RMB122,000 (31 December 2015: nil) were individually determined to be impaired.

14 CASH AND CASH EQUIVALENTS

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Cash at bank and on hand	455,873	489,987

15 TRADE AND OTHER PAYABLES

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

	At 30 June 2016 <i>RMB'000</i>	At 31 December 2015 <i>RMB'000</i>
Within 1 month	6,771	29,169
1 to 12 months	8,186	10,591
Over 12 months	160	–
Total trade payable	15,117	39,760
Receipts in advance	498	1,276
Accrued expenses	59,824	54,635
Employee benefits payable	39,555	40,143
Other payables	69,478	65,421
	184,472	201,235

16 EQUITY SETTLED SHARE-BASED PAYMENTS

(a) Employees' Share Option Scheme

The Company adopted a share option scheme on 2 December 2013 (the “**Share Option Scheme**”) whereby the board of directors of the Company is authorised, at its discretion, to grant options to the directors and employees of the Group to subscribe for ordinary shares of the Company. The Company can issue options exercisable up to 100,000,000 ordinary shares under the Share Option Scheme.

In 2014, the Company granted 60,000,000 share options to certain directors and employees at a consideration of HK\$1 for each grantee (the “**2014 Grant**”). The exercise price of these share options was HK\$6.64 per share, and the aggregate fair value of these share options amounted to RMB138,095,000. The options vest after one year to five years from the date of grant and are then exercisable on or before 23 March 2024.

During the six months ended 30 June 2016, an aggregate of 24,790,000 unvested share options under the 2014 Grant were cancelled (the “**Cancelled Share Options**”), among which 9,200,000 and 15,590,000 unvested share options were previously granted to directors and employees, respectively, with remaining vesting period ranged from one year to three years.

During the six months ended 30 June 2016, the Company granted 52,000,000 share options to certain directors and employees (the “**2016 Grant**”). The exercise price of these share options was HK\$4.01 per share, and the aggregate fair value of these share options amounted to RMB81,168,000. The options vest after one year to three years from the date of grant and are then exercisable on or before 31 March 2026.

Under the 2016 Grant, 36,440,000 share options (the “**Replacing Share Options**”) were identified as the replacement for 23,650,000 of the Cancelled Share Options (the “**Replaced Share Options**”), while the remaining 15,560,000 new share options were granted to certain employees who previously were not grantees of the 2014 Grant.

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

	Six months ended 30 June 2016	
	Weighted average exercise price HKD	Number of options '000
Outstanding at 1 January 2016	6.64	52,846
Forfeited during the period	6.64	(6,013)
Cancelled during the period	6.64	(24,790)
Granted under the 2016 Grant	4.01	52,000
	<u>4.79</u>	<u>74,043</u>
Outstanding at 30 June 2016		
	<u>4.79</u>	<u>74,043</u>
Exercisable at 30 June 2016	<u>6.64</u>	<u>20,623</u>

The share options outstanding at 30 June 2016 had an exercise price of HK\$6.64 or HK\$4.01 (31 December 2015: HK\$6.64) and a weighted-average remaining contractual life of 9.2 years (31 December 2015: 8.3 years). No options were exercised during the six months ended 30 June 2016 (2015: nil).

The Group recognised share option expenses of RMB2,170,000 during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB17,401,000) in respect of share options cancelled and granted in the current and prior periods.

(i) *The terms and conditions of the 2016 Grant are as follows:*

Date of grant	Tranche number	Number of options granted	Vesting period	Contractual life of options
Options granted to employees:				
1 April 2016	Tranche 1	12,600,000	1 year after the date of grant	10 years
1 April 2016	Tranche 2	12,600,000	2 years after the date of grant	10 years
1 April 2016	Tranche 3	16,800,000	3 years after the date of grant	10 years
Options granted to directors:				
1 April 2016	Tranche 1	600,000	1 year after the date of grant	10 years
1 April 2016	Tranche 2	600,000	2 years after the date of grant	10 years
1 April 2016	Tranche 3	800,000	3 years after the date of grant	10 years
27 May 2016	Tranche 4	2,400,000	1 year after the date of grant	9.8 years
27 May 2016	Tranche 5	2,400,000	2 years after the date of grant	9.8 years
27 May 2016	Tranche 6	3,200,000	3 years after the date of grant	9.8 years
Total share options granted		52,000,000		

(ii) *Fair value of share options under the 2016 Grant and assumptions:*

The fair value of services received in return for the share options granted is measured by reference to the fair value of share options granted. The estimated fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share options is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model. Set out below are the fair value of share options and assumptions.

	Tranche number					
	1	2	3	4	5	6
Fair value at measurement date (HK\$)	1.73	1.87	1.98	1.71	1.85	1.97
Share price (HK\$)	3.99	3.99	3.99	4.02	4.02	4.02
Exercise price (HK\$)	4.01	4.01	4.01	4.01	4.01	4.01
Expected volatility	56.71%	56.71%	56.71%	55.99%	55.99%	55.99%
Expected option life	10 years	10 years	10 years	9.8 years	9.8 years	9.8 years
Dividend yield	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%
Risk-free rate	1.61%	1.61%	1.61%	1.72%	1.72%	1.72%

(iii) *Fair value of the Replaced Share Options under the 2014 Grant and assumptions:*

The fair value of the Replaced Share Options and the incremental fair value of the Replacing Share Options were RMB26,422,000 and RMB30,472,000 respectively. The incremental fair value of the Replacing Share Options was the difference between the fair value of the 36,440,000 share options under the 2016 Grant and the fair value of the Replaced Share Options, both at the respective date of grant of the share options under the 2016 Grant. The fair value of the Replaced Share Options was estimated as at the date of replacement, using a binomial tree model, taking into account the terms and conditions upon which those options were granted. Set out below are the fair value of the Replaced Share Options and assumptions.

Fair value at measurement date (HK\$)	1.32~1.45
Share price (HK\$)	3.99
Exercise price	6.64
Expected volatility	54.68%
Expected option life	8 years
Expected dividend yield	1.23%
Risk-free rate	1.51%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service conditions and non-market performance conditions. These conditions had not been taken into account in the grant date fair value measurement of the services received. There was no market conditions associated with the share option grants.

(b) **Employees' Share Award Scheme**

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

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

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

(i) *Details of the treasury shares held under the Share Award Scheme are set out below:*

	Average	No. of	Value of shares	
	purchase price HK\$	shares held '000	RMB'000	HK\$'000
At 1 January 2015	5.99	9,528	57,207	45,359
Shares repurchased during the year	5.38	10,472	56,357	44,638
At 31 December 2015	5.68	20,000	113,564	89,997
Shares vested during the period	5.68	(142)	(804)	(636)
At 30 June 2016	5.68	19,858	112,760	89,361

(ii) *Details of Awarded Shares are set out below:*

	Number of the Awarded Shares		
	Vesting date on	Vesting date on	Total
	30 June 2016 '000	31 December 2016 '000	
Granted on 7 May 2015	1,096	1,096	2,192
Forfeited during the year	(940)	(917)	(1,857)
Unvested at 31 December 2015	156	179	335
Forfeited during the period	(14)	(9)	(23)
Vested during the period	(142)	–	(142)
Unvested at 30 June 2016	–	170	170

The estimated fair value of the Awarded Shares on the grant date is determined by reference to the market price of the Company's shares.

The Group recognised share award expenses of RMB604,000 during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB119,000).

142,000 shares were vested on 30 June 2016 (six months ended 30 June 2015: nil).

17 CAPITAL, RESERVE AND DIVIDENDS

(a) Dividends

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

	For the six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Interim dividend declared after the interim period of RMB0.045 per share (six months ended 30 June 2015: nil)	42,942	–

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

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

	For the six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Final dividends in respect of the previous financial year, approved and paid during the interim period ended 30 June 2016 of RMB0.075 per share (six months ended 30 June 2015: RMB0.028)	74,119	28,000
Less: Dividends for treasury shares held by the Company	(2,549)	–
	71,570*	28,000

* The Company paid a final dividend of RMB71,570,000 for the year ended 31 December 2015 as adjusted to exclude the dividend for treasury shares held under the Company's Share Award Scheme and other treasury shares held by the Company.

(b) Share capital

Ordinary shares, issued and fully paid

	For the six months ended 30 June 2016			For the year ended 31 Dec 2015		
	Number of shares '000	Nominal value of fully paid shares HK\$'000	Nominal value of fully paid shares RMB'000	Number of shares '000	Nominal value of fully paid shares HK\$'000	Nominal value of fully paid shares RMB'000
At 1 January	997,757	99,776	78,074	1,000,000	100,000	78,250
Cancellation of shares during the period/year (i)	(22,758)	(2,276)	(1,780)	(2,243)	(224)	(176)
As at the period/year end	974,999	97,500	76,294	997,757	99,776	78,074

(i) During the period ended 30 June 2016, 23,489,000 ordinary shares (2015: 2,243,000 shares) were repurchased at the average purchase price of HK\$4.10 per share by the Company, among which 22,758,000 ordinary shares (2015: 2,243,000 shares) were cancelled while the remaining 731,000 ordinary shares were held by the Company as at 30 June 2016 (31 December 2015: nil).

(ii) At 30 June 2016, 20,000,000 ordinary shares were held by the trustee under the Share Award Scheme (31 December 2015: 20,000,000 shares) (see note 16(b)), among which 142,000 shares in respect of the Awarded Shares vested on 30 June 2016 (see note 16(b)) were held on behalf of certain employees (31 December 2015: nil), while the remaining 19,858,000 shares were held on behalf of the Company (31 December 2015: 20,000,000 shares).

MANAGEMENT DISCUSSION AND ANALYSIS

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

BUSINESS REVIEW

By developing the market intensively, the Group has kept sales on a robust growth trend and revenue of RMB451,852,000 was recorded for the six months ended 30 June 2016, representing an increase of 16.7% as compared with the same period last year. Categorized by product lines, sales of Kidney medicines recorded an increase of 15.1% as compared with the same period last year, among which, Uremic Clearance Granules (“UCG”) remained the growth driver of the Group’s sales and maintained its leading position in terms of oral modern Chinese medicines for kidney diseases; the rise of sales of medical contrast medium of 6.4% as compared with the same period last year firmly consolidated the Group’s leading position in the domestic medical contrast medium market for magnetic resonance imaging.

The Group experienced an increase in revenue for the first half of 2016, mainly attributable to the success of UCG and Gadopentetic Acid Dimeglumine Salt Injection, being two of the Group’s major products, with the implementation of its marketing guideline to develop the market segments intensively. Specifically, with the continuous tutoring activities in the inpatient department, products were introduced pertinently to all the departments other than the department of nephrology in various ways. We have recruited and trained additional academic representatives who became familiar with the Group’s products in a designed manner in order to extend our coverage over hospitals and physicians. Compared with the same period last year, the Group’s products penetrated in more hospitals, not only covering tertiary hospitals, but rather secondary or lower hospitals (community hospitals). Further, UCG has been included in the National List of Essential Medicines rendering better chances for it to be learned and applied by more patients.

Particularly worth mentioning that, during the first half of 2016, Yulin Pharmaceutical (which became an associate of the Group since August 2015) and its subsidiaries (collectively “**Yulin Pharmaceutical Group**”), by undergoing a series of changes along its ongoing process of adjustments and reforms which include adjusting its old systems and mechanisms which do not cope with the modern market trends, changing its marketing and sales models, strengthening its internal management and refining its cost controls in every aspect, achieved a half-year revenue of RMB200,000,000, which re-demonstrated Yulin Pharmaceutical Group’s strong growing potential over the last decade. According to the unaudited management accounts of Yulin Pharmaceutical Group for the six months ended 30 June 2016, its profit after tax amounted to RMB24,663,000, which already reached 80% of Yulin Pharmaceutical Group’s audited profit after tax of RMB30,600,000 for the full year of 2015. This shows that the performance of Yulin Pharmaceutical Group has been improving significantly since Yulin Pharmaceutical became an associated company of the Group. After deducting the additional depreciation and amortization expenses of approximately RMB16,176,000 (after tax) based on the fair value adjustments on Yulin Pharmaceutical Group’s property, plant and equipment, investment properties and intangible assets at the time when acquiring the equity interest in Yulin Pharmaceutical, the Group’s share of profit of the associate for the period amounted to RMB3,865,000.

FINANCIAL REVIEW

Revenue and Other Revenue

For the first half of 2016, the Group's revenue was RMB451,852,000, representing an increase of approximately 16.7% as compared with the RMB387,278,000 for the same period of 2015. The increase was primarily attributable to the growth in sales as a result of the Group's continued efforts to expand its national sales network by developing the market intensively. Other revenue was RMB3,331,000, which mainly included the government grants and interest income. Compared with the RMB17,197,000 for the same period of 2015, the decrease in other revenue was mainly due to the decrease in interest income as a result of the decrease in average balance of bank deposits and financial products during the period.

Gross Profit and Gross Profit Margin

For the first half of 2016, the Group's gross profit was RMB356,804,000, representing an increase of approximately 14.8% as compared with the RMB310,874,000 for the same period of 2015. The increase in gross profit was mainly due to the increase in sales. The Group's gross profit margin was 79.0% for the first half of 2016, representing a decrease of 1.3 percentage points from 80.3% as compared with the same period of 2015, mainly due to the increase in prices of certain raw materials.

Distribution Costs

For the first half of 2016, the Group's distribution costs were RMB136,271,000, representing an increase of 16.9% as compared with the RMB116,615,000 for the same period of 2015, which was in line with the increase in the Group's revenue.

Administrative Expenses

For the first half of 2016, the Group's administrative expenses were RMB48,872,000, representing a decrease of 16.3% as compared with the RMB58,384,000 for the same period of 2015, which was mainly due to the decrease in share-based payment recognised during the period and there was a sponsorship of HK\$5,000,000 during the first half of 2015, which was not recurrent in the first half of 2016.

Finance Costs

During the first half of 2016 and 2015, the Group did not have any borrowings. Therefore, no finance costs were incurred by the Group during the relevant periods.

Share of profit of an associate

During the second half of 2015, the Group acquired an aggregate of 45.27% equity interest in Yulin Pharmaceutical which became an associate of the Group since then. The Group acquired further 3.60% equity interest in Yulin Pharmaceutical during the six months ended 30 June 2016. Interest in an associate is accounted for using the equity method in the interim financial report. The unaudited management accounts of Yulin Pharmaceutical Group for the six months ended 30 June 2016 show a profit after tax of RMB24,663,000. After deducting the additional depreciation and amortization expenses of approximately RMB16,176,000 (after tax) based on the fair value adjustments on Yulin Pharmaceutical Group's property, plant and equipment, investment properties and intangible assets at the time when acquiring the equity interest in Yulin Pharmaceutical, the Group's share of profit of the associate for the period amounted to RMB3,865,000.

Income Tax

For the first half of 2016, the Group's income tax expenses were RMB32,741,000, representing an increase of 8.0% as compared with the RMB30,328,000 for the same period of 2015. The effective tax rate (income tax expenses divided by profit before taxation) decreased by 1.6% from 20.0% for the first half of 2015 to 18.4% for the first half of 2016, mainly attributed to the decrease in expenses which were not deductible for tax purposes, such as share-based payment and sponsorship.

Profit for the Period and Earnings Per Share

The Group's profit for the first half of 2016 was RMB145,397,000, representing an increase of 20.0% as compared with the RMB121,190,000 for the same period of 2015. The earnings per share (basic and diluted) increased by RMB0.03 from RMB0.12 for the first half of 2015 to RMB0.15 for the first half of 2016.

LIQUIDITY AND FINANCIAL RESOURCES

Trade Debtors and Bills Receivable

As at 30 June 2016, the balance of trade debtors and bills receivable was RMB391,692,000, representing an increase of 7.7%, as compared to the balance of RMB363,703,000 as at 31 December 2015. The trade receivable turnover days in the first half of 2016 were 150.5 days, representing an increase of approximately 19.7 days from 130.8 days in 2015. It was mainly due to the increase in customers used bank acceptance bills with longer tenor to settle their purchases.

Inventories

As at 30 June 2016, the balance of inventories was RMB48,217,000, representing a decrease of 32.1% as compared with the balance of RMB71,014,000 as at 31 December 2015. The Group's inventory turnover days in the first half of 2016 were 112.9 days, representing a decrease of 28.6 days from approximately 141.5 days in 2015. It was mainly due to the management's effort in controlling and reducing the inventory level.

Trade Payable

As at 30 June 2016, the balance of trade payable was RMB15,117,000, representing a decrease of 62.0% as compared with the balance of RMB39,760,000 as at 31 December 2015. The trade payable turnover days in the first half of 2016 were 52.0 days, representing a decrease of 34.6 days from 86.6 days in 2015. It was mainly attributable to speed up in processing trade payable as a result of improvement in cash flow from operating activities.

Cash Flow from Operating Activities

The net cash inflow from operating activities of the Group in the first half of 2016 was RMB130,254,000, representing an increase of 232.7% as compared with the RMB39,156,000 for the same period of 2015, which was mainly due to the increase in revenue.

Cash and Bank Balances and Borrowings

As at 30 June 2016, cash and bank balances of the Group were RMB455,873,000, representing a decrease of 7.0% as compared with the balance of RMB489,987,000 as at 31 December 2015, mainly attributable to cash used in financing activities in connection with the payment of dividends and repurchase of shares.

Treasury Policies

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

Gearing Ratio

The gearing ratio of the Group, representing the total borrowings divided by the shareholders equity as at 30 June 2016 is 0% (31 December 2015: 0%).

Exchange Risks

The Group's transactions are mainly denominated in RMB and HK\$. The majority of assets and liabilities are denominated in RMB and HK\$, and there are no significant assets and liabilities denominated in other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions or recognised assets and liabilities which are denominated in a currency other than HK\$ or RMB, which are the functional currencies of the major operating companies now comprising the Group. During the period, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

Capital Structure

During the first half of 2016, the Company repurchased 23,489,000 ordinary shares (during the year of 2015: 2,243,000 ordinary shares) from the market and cancelled 22,758,000 of those shares during the six months ended 30 June 2016 (during the year of 2015: 2,243,000 ordinary shares). Other than this, there were no significant changes in the Company's capital structure. The Company's capital comprises ordinary shares and other reserves.

Capital Commitments

As at 30 June 2016, the Group had capital commitments of RMB6,773,000 (31 December 2015: RMB8,096,000).

Capital Expenditure

For the six months ended 30 June 2016, the Group had capital expenditure of RMB4,919,000 (same period of 2015: RMB7,395,000).

Information on Employees

For the six months ended 30 June 2016, the total staff costs (including the directors' remuneration) was RMB76,245,000 (same period of 2015: RMB70,272,000). The salaries of the employees were determined with reference to individual performance, work experience, qualification and current industry practices.

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

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

Significant Investments Held

Except for investments in subsidiaries and an associate, as at 30 June 2016, the Group did not hold any significant investment in equity interest in any other company.

Future Plans for Material Investments and Capital Assets

Save as disclosed in the Company's announcements dated 19 July 2016, 11 August 2016 and 16 August 2016 regarding further acquisitions of approximately 21.87% equity interest in Yulin Pharmaceutical at the aggregate consideration of approximately RMB209,800,000, the Group currently does not have other future plans for material investments and capital assets.

Pledge of Assets

As at 30 June 2016, the Group did not have any pledged assets (31 December 2015: nil).

Contingent Liabilities

As at 30 June 2016, the Group did not have any material contingent liabilities (31 December 2015: nil).

Connected Transaction

We had not entered into any transactions which constitute non-exempt connected transactions within the meaning of the Listing Rules during the first half of 2016.

Events after the Reporting Period

As of the date of this announcement, save as disclosed in the Company's announcements dated 19 July 2016, 11 August 2016 and 16 August 2016 regarding further acquisition of approximately 21.87% equity interest in Yulin Pharmaceutical at the aggregate consideration of approximately RMB209,800,000 from a group of individuals including certain ex-directors and current directors of Yulin Pharmaceutical and its subsidiaries, the Group has no significant events after the period required to be disclosed.

Outlook

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

Interim Dividend

The Board is pleased to announce the distribution of an interim dividend (the "**Interim Dividend**") of RMB0.045 per share in respect of the six months ended 30 June 2016 (2015: nil), amounted to approximately RMB42,942,000 (2015: nil). It is expected that the Interim Dividend will be payable on Wednesday, 28 September 2016 to the Shareholders whose names appear on the register of members of the Company on Wednesday, 21 September 2016. Dividends are declared in RMB and will be paid in HK\$ based on the official exchange rate of RMB against HK\$ as quoted by the People's Bank of China on 21 September 2016 before payment.

Closure of Register of Members

For the purpose of determining Shareholders' entitlement to the Interim Dividend, the register of members of the Company will be closed from Monday, 19 September 2016 to Wednesday, 21 September 2016 (both days inclusive).

In order to qualify for the entitlements to the Interim Dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 pm on Thursday, 15 September 2016.

OTHER INFORMATION

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

During the six months ended 30 June 2016, the Company repurchased 23,489,000 shares of its own ordinary shares through The Stock Exchange at a total consideration of HK\$96,227,000 (equivalent to approximately RMB81,132,000), among which 22,758,000 ordinary shares were cancelled. The remaining 731,000 ordinary shares were held by the Company as treasury shares as at 30 June 2016.

Details of the Company's own shares repurchased by the Company during the first half of 2016 are as follows:

Month of repurchase	Number of ordinary shares of HK\$0.10 each of the Company	Price per share		Aggregate consideration paid	
		Highest HK\$	Lowest HK\$	HK\$'000	RMB'000
January 2016	9,501,000	4.42	4.14	40,642	34,267
April 2016	7,561,000	4.06	3.78	29,882	25,194
May 2016	5,946,000	4.19	3.80	23,749	20,024
June 2016	481,000	4.09	4.01	1,954	1,647
	<u>23,489,000</u>			<u>96,227</u>	<u>81,132</u>

Save for the above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

Pre-emptive Rights

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

Corporate Governance Report

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

The Company has adopted and complied with the code provisions (the "Code Provisions") set out in Appendix 14, *Corporate Governance Code and Corporate Governance Report*, of the Listing during the six months ended 30 June 2016.

Model Code for Securities Transactions by the Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have complied with the required standards of dealing as set out in the Model Code during the six months ended 30 June 2016.

Audit Committee

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

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

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

The unaudited interim results of the Group for the six months ended 30 June 2016 has been reviewed by the Audit Committee and the Company's external auditor KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the HKICPA.

Publication of information on the Stock Exchange's website

This announcement is published on the websites of the Company (www.chinaconsun.com) and The Stock Exchange (www.hkexnews.hk), and the interim report of the Company for the six months ended 30 June 2016 will be despatched to Shareholders of the Company and published on the above websites in due course.

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

Hong Kong, 30 August 2016

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