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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

FINANCIAL HIGHLIGHTS

- Turnover for the year ended 31 December 2015 amounted to RMB831,108,000, representing an increase of approximately 13.7% compared with the year ended 31 December 2014.
- Profit for the year ended 31 December 2015 attributable to equity shareholders of the Company amounted to RMB249,689,000, representing an increase of approximately 18.2% compared with the year ended 31 December 2014.
- Basic and diluted earnings per share for the year ended 31 December 2015 amounted to approximately RMB0.25, representing an increase of approximately 19.0% compared with the year ended 31 December 2014.
- The Board proposed to declare a final dividend of RMB0.075 per share for the year ended 31 December 2015.

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**”) for the year ended 31 December 2015 (the “**Annual Results**”), together with the comparative figures of 2014 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

(Expressed in Renminbi)

		For the year ended 31 December	
		2015	2014
	Note	RMB'000	RMB'000
Revenue	3	831,108	730,683
Cost of sales		<u>(160,542)</u>	<u>(158,916)</u>
Gross profit		670,566	571,767
Other revenue	4(a)	32,830	37,585
Other net loss	4(b)	(1,501)	(96)
Distribution costs		(259,043)	(230,971)
Administrative expenses		<u>(122,946)</u>	<u>(114,126)</u>
Profit from operation		319,906	264,159
Finance costs	5(a)	(441)	–
Share of loss of an associate	10	<u>(4,683)</u>	<u>–</u>
Profit before taxation	5	314,782	264,159
Income tax	6(a)	<u>(65,093)</u>	<u>(52,959)</u>
Profit for the year attributable to equity shareholders of the Company		249,689	211,200
Other comprehensive income for the year			
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC"), net of tax		<u>40</u>	<u>348</u>
Total comprehensive income for the year attributable to equity shareholders of the Company		<u>249,729</u>	<u>211,548</u>
Earnings per share (RMB yuan)			
– Basic	7(a)	<u>0.25</u>	<u>0.21</u>
– Diluted	7(b)	<u>0.25</u>	<u>0.21</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

(Expressed in Renminbi)

		At 31 December 2015 RMB'000	At 31 December 2014 RMB'000
Non-current assets			
Property, plant and equipment	9	223,773	229,914
Lease prepayments		23,574	24,201
Other investments		2,600	2,600
Interest in an associate	10	636,659	–
Prepayment for equity investment	11	62,458	–
Deferred tax assets		8,639	9,697
		<hr/>	<hr/>
Total non-current assets		957,703	266,412
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Current assets			
Inventories	12	71,014	53,482
Trade and other receivables	13	399,187	248,478
Other investments		–	250,900
Cash and cash equivalents	14	489,987	843,669
		<hr/>	<hr/>
Total current assets		960,188	1,396,529
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Current liabilities			
Trade and other payables	15	201,235	150,678
Deferred income		436	436
Current tax payable		27,679	27,133
		<hr/>	<hr/>
Total current liabilities		229,350	178,247
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net current assets		730,838	1,218,282
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Total assets less current liabilities		1,688,541	1,484,694
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Non-current liabilities			
Deferred income		11,582	12,018
Deferred tax liabilities		40,204	39,490
		<hr/>	<hr/>
Total non-current liabilities		51,786	51,508
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net assets		1,636,755	1,433,186
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Capital and reserves			
Share capital		78,074	78,250
Reserves		1,558,681	1,354,936
		<hr/>	<hr/>
Total equity		1,636,755	1,433,186
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1 BASIS OF PREPARATION

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in this financial information.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKAS 19, *Employee benefits: Defined benefit plan: Employee contribution*
- Annual Improvements to HKFRSs 2010-2012 Cycle
- Annual Improvements to HKFRSs 2011-2013 Cycle

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

3 REVENUE AND SEGMENT INFORMATION

The principal activities of the Group are manufacturing and sales of pharmaceuticals. Revenue represents the sales value of goods supplied to customers. Revenue excludes sales taxes and surcharges and is after deduction of any trade discounts. The amount of each significant category of revenue recognised during the year is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Kidney medicines	645,164	580,309
Contrast medium	121,460	107,083
Others	64,484	43,291
	<u>831,108</u>	<u>730,683</u>

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:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Customer A	287,064	225,276
Customer B	N/A	85,739
	<u> </u>	<u> </u>

Revenue from customer B contributed less than 10% of the revenue of the Group for the year ended 31 December 2015.

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 on sales of pharmaceutical products. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8, Operating Segments. In this regard, no segment information is presented for the years.

No geographic information is shown as the Group's operating profit is entirely derived from activities of manufacturing and sale of pharmaceutical products in the PRC.

4 OTHER REVENUE AND OTHER NET LOSS

(a) Other revenue

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Government grants		
– Unconditional subsidies	509	7,211
– Conditional subsidies	436	1,549
Interest income	27,531	28,791
Others	4,354	34
	<u>32,830</u>	<u>37,585</u>

(b) Other net loss

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Loss on disposal of property, plant and equipment	(1,554)	(95)
Others	53	(1)
	<u>(1,501)</u>	<u>(96)</u>

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Interest on bank loans	441	–
	<u>441</u>	<u>–</u>

(b) Staff costs

	2015	2014
	RMB'000	RMB'000
Salaries, wages, bonuses and benefits	114,243	122,917
Contribution to retirement schemes	4,566	4,565
Equity settled share-based payments:		
Employee Share Option Scheme	34,762	47,633
Employee Share Award Scheme	556	–
	154,127	175,115

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

(c) Other items

	2015	2014
	RMB'000	RMB'000
Depreciation	18,589	15,230
Amortisation	627	627
Auditor’s remuneration		
– audit services	2,100	1,150
– non-audit services	450	450
Impairment losses (reversed)/recognised for doubtful debts	(513)	175
Operating lease charges	970	1,024
Research and development cost [#]	31,287	27,475
Cost of inventories [*]	160,542	158,916
Listing expenses	–	420

[#] During the year ended 31 December 2015, research and development cost include RMB6,497,000 (2014: RMB6,448,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in the Note 5(b) for each of these types of expenses.

^{*} During the year ended 31 December 2015, cost of inventories include RMB36,809,000 (2014: RMB33,839,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in the Note 5(b) for each of these types of expenses.

6 INCOME TAX

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Current tax		
Provision for PRC income tax for the year	61,120	58,507
Under-provision for PRC income tax in respect of prior years	2,201	–
	<u>63,321</u>	<u>58,507</u>
Deferred tax		
Origination and reversal of temporary differences	1,772	(5,548)
	<u>65,093</u>	<u>52,959</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 the years ended 31 December 2014 and 2015.
- (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 an “Advanced and New Technology Enterprise”, Inner Mongolia Consun and Guangzhou Consun are entitled to the preferential income tax rate of 15% from 2015 to 2017 and 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 the 10% withholding tax rate for PRC withholding tax purposes.

As Guangzhou Consun is wholly owned by the Company, the Company can control the payments of dividends by 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 31 December 2015, the Group has undistributed earnings of the PRC subsidiaries totaling RMB449,328,000 (2014: RMB204,212,000) 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 totaling RMB44,933,000 as of 31 December 2015 (2014: RMB20,421,000).

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Profit before taxation for the year	314,782	264,159
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	79,491	64,198
Effect of non-deductible expenses	16,915	13,688
Effect of tax concession	(31,324)	(27,117)
Effect of unrecognised tax losses	–	2,190
Recognition of previous year unrecognized tax losses	(2,190)	–
Under provision in respect of prior years	2,201	–
Actual tax expenses	65,093	52,959

7 **BASIC AND DILUTED EARNINGS PER SHARE**

(a) **Basic earnings per share**

The calculation of basic earnings per share for the year ended 31 December 2015 is based on the profit attributable to equity shareholders of the Company of RMB249,689,000 (2014: 211,200,000) and the weighted average number of ordinary shares of 981,567,000 shares (2014: 998,519,000 shares) in issue during the year.

	2015 <i>'000 shares</i>	2014 <i>'000 shares</i>
Issued ordinary shares at 1 January	1,000,000	1,000,000
Effect of purchase of shares under Share Award Scheme	(18,147)	(1,481)
Effect of cancellation of shares during the year	(286)	–
Weighted average number of ordinary shares	981,567	998,519

(b) **Diluted earnings per share**

The calculation of diluted earnings per share for the year ended 31 December 2015 is based on the profit attributable to equity shareholders of the Company of RMB249,689,000 (2014: RMB211,200,000) and the weighted average number of ordinary shares of 981,786,000 shares (2014: 998,519,000 shares) during the year.

	2015 <i>'000 shares</i>	2014 <i>'000 shares</i>
Weighted average number of ordinary shares	981,567	998,519
Effect of awarded shares under Share Award Scheme	219	–
Weighted average number of ordinary shares (diluted)	981,786	998,519

For the years ended 31 December 2015 and 2014, the effect of the Company's Share Option Scheme was anti-dilutive.

8 DIVIDENDS

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Interim dividend declared and paid of RMB nil per ordinary share (2014: RMB0.038)	–	38,000
Final dividend proposed after the end of the year of RMB0.075 per ordinary share (2014: RMB0.028)	<u>74,119</u>	<u>28,000</u>
	<u>74,119</u>	<u>66,000</u>

The final dividend proposed after the end of the year has not been recognised as liabilities 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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.028 per ordinary share (2014: Nil)	<u>28,000</u>	<u>–</u>

9 PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:						
At 1 January 2014	136,029	58,733	8,990	10,348	81,032	295,132
Transfer from CIP	43,957	38,049	–	–	(82,006)	–
Other additions	1,457	1,425	1,545	841	7,701	12,969
Disposals	–	(349)	–	(260)	–	(609)
	<u>181,443</u>	<u>97,858</u>	<u>10,535</u>	<u>10,929</u>	<u>6,727</u>	<u>307,492</u>
At 31 December 2014 and 1 January 2015	181,443	97,858	10,535	10,929	6,727	307,492
Transfer from CIP	6,991	523	–	–	(7,514)	–
Other additions	1,437	4,347	2,979	1,055	4,710	14,528
Disposals	(87)	(8,197)	(553)	(921)	–	(9,758)
	<u>189,784</u>	<u>94,531</u>	<u>12,961</u>	<u>11,063</u>	<u>3,923</u>	<u>312,262</u>
At 31 December 2015	189,784	94,531	12,961	11,063	3,923	312,262
Accumulated depreciation:						
At 1 January 2014	(28,042)	(23,134)	(7,027)	(4,659)	–	(62,862)
Charge for the year	(6,289)	(7,050)	(499)	(1,392)	–	(15,230)
Written back on disposal	–	287	–	227	–	514
	<u>(34,331)</u>	<u>(29,897)</u>	<u>(7,526)</u>	<u>(5,824)</u>	<u>–</u>	<u>(77,578)</u>
At 31 December 2014 and 1 January 2015	(34,331)	(29,897)	(7,526)	(5,824)	–	(77,578)
Charge for the year	(7,442)	(9,318)	(578)	(1,251)	–	(18,589)
Written back on disposal	49	6,404	498	727	–	7,678
	<u>(41,724)</u>	<u>(32,811)</u>	<u>(7,606)</u>	<u>(6,348)</u>	<u>–</u>	<u>(88,489)</u>
At 31 December 2015	(41,724)	(32,811)	(7,606)	(6,348)	–	(88,489)
Net book value:						
At 31 December 2014	<u>147,112</u>	<u>67,961</u>	<u>3,009</u>	<u>5,105</u>	<u>6,727</u>	<u>229,914</u>
At 31 December 2015	<u>148,060</u>	<u>61,720</u>	<u>5,355</u>	<u>4,715</u>	<u>3,923</u>	<u>223,773</u>

As at 31 December 2015 and up to the date of this announcement, the Group is in the process of applying for certificates of ownership for certain properties, with carrying value of RMB29,381,000 (31 December 2014: RMB29,534,000). The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

10 INTEREST IN AN ASSOCIATE

During the year ended 31 December 2015, the Group acquired 30.91% and 14.36% of 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 predecessor shareholders of Yulin Pharmaceutical and an independent third party agent, respectively. The aggregate consideration was RMB641,342,000 and the Group effectively held 45.27% equity interest in Yulin Pharmaceutical as at 31 December 2015.

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. Further details are disclosed in Note 11.

Details of the Group’s interest in Yulin Pharmaceutical, which is an unlisted corporate entity whose quoted market price is not available, are as follows:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of registered and paid up capital	Proportion of ownership interest		Principal activity
				Group’s effective interest	Held by a subsidiary	
Yulin Pharmaceutical	Limited liability company	The PRC	RMB148,834,102	45.27%	45.27%	Research, Manufacturing and sales of Chinese medicines and natural medicines

The associate is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of Yulin Pharmaceutical, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	As at 31 December 2015 <i>RMB’000</i>	From date of acquisition to 31 December 2015 <i>RMB’000</i>
Gross amounts of Yulin Pharmaceutical		
Current assets	331,126	
Non-current assets	759,837	
Current liabilities	257,030	
Non-current liabilities	99,831	
Equity	734,102	
Revenue		85,649
Loss for the period		(12,173)
Total comprehensive income for the period		(12,173)
Reconciled to the Group’s interest in Yulin Pharmaceutical		
Gross amounts of net assets of the associate		734,102
Group’s effective interest		45.27%
Group’s share of net assets of the associate		332,328
Goodwill		304,331
Carrying amount in the consolidated financial statements		636,659

11 PREPAYMENT FOR EQUITY INVESTMENT

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”).

As at 31 December 2015, the Proposed Acquisition was not yet completed and the advance payment of RMB62,458,000 paid by the Group was recognised as prepayments for equity investment.

12 INVENTORIES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Raw materials	25,049	16,552
Work in progress	17,197	10,653
Finished goods	28,768	26,277
	<u>71,014</u>	<u>53,482</u>

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Cost of inventories sold	160,376	159,078
Write down of inventories	166	–
Reversal of write-down of inventories	–	(162)
	<u>160,542</u>	<u>158,916</u>

13 TRADE AND OTHER RECEIVABLES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade debtors	120,854	81,929
Bills receivable	242,868	154,538
Less: Allowance for doubtful debtors	(19)	(4,323)
	<u>363,703</u>	<u>232,144</u>
Trade receivables	363,703	232,144
Other receivables	22,756	11,534
Prepayments	12,728	4,800
	<u>399,187</u>	<u>248,478</u>

(a) **Ageing analysis**

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within 3 months	362,954	231,910
3 to 12 months	749	233
Over 12 months	–	1
	363,703	232,144

Trade receivables are due within 90 days from the date of billing.

(b) **Impairment of trade debtors and bills receivable**

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

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
At 1 January	4,323	4,917
Impairment loss (reversed)/recognised	(513)	175
Uncollectible amounts written off	(3,791)	(769)
At 31 December	19	4,323

As at 31 December 2015, the Group's trade debtors of RMB19,000 (31 December 2014: RMB5,964,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB19,000 (2014: RMB4,323,000) respectively were recognised.

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

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Neither past due nor impaired	<u>362,954</u>	<u>230,270</u>
Less than 1 month past due	465	95
1 to 3 months past due	186	71
More than 3 months but less than 12 months past due	<u>98</u>	<u>67</u>
	<u>749</u>	<u>233</u>
	<u>363,703</u>	<u>230,503</u>

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

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

14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Cash at bank and on hand	<u>489,987</u>	<u>843,669</u>

15 TRADE AND OTHER PAYABLES

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade payables	39,760	36,416
Receipts in advance	1,276	3,666
Accrued expenses	54,635	26,909
Employee benefits payable	40,143	46,381
Other payables	<u>65,421</u>	<u>37,306</u>
	<u>201,235</u>	<u>150,678</u>

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within 1 month	29,169	25,665
1 to 12 months	10,591	10,512
Over 12 months	<u>-</u>	<u>239</u>
	<u>39,760</u>	<u>36,416</u>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY AND BUSINESS OVERVIEW

The Company was listed successfully on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 19 December 2013 (the “**Listing**”) and has just completed the second full financial year after the Listing. Looking back to 2015, it was a year in which challenges and opportunities coexisted for the pharmaceutical industry. With the joint efforts of the Group’s management and all staff members, Consun Pharmaceutical continued to maintain its strong growth momentum as always and achieved a revenue of RMB831,108,000 and net profit of RMB249,689,000 during the year, representing an annual growth of 13.7% and 18.2% respectively, thereby repaying its shareholders with remarkable results for their continued trust and support to the Company.

The concept of “Healthy China” has become a national-level strategy under the “13th Five Year Plan”, indicating that the national leaders have attached great importance to the healthcare industry and national health has further become the focus of public concern. In the past year, the macro-economy has entered into the “new normal” phase and policies relating to the pharmaceutical industry was constantly changing; however, by continuously exploring sales channels, improving its business layout and product structure, strengthening the capability in technology research and innovation, optimising the internal talent management, Consun Pharmaceutical has laid a solid foundation for its long-term development in the future.

The sales of kidney medicines amounted to RMB645,164,000 in 2015, representing a year-on-year growth of 11.2% as compared to last year. Uremic clearance granules (“**UCG**”), a flagship product of Consun Pharmaceutical, maintained its strong leading position in the market of oral modern Chinese medicines for kidney diseases.

The sales of Gadopentetic Acid Dimeglumine Salt Injection, Consun Pharmaceutical’s leading product in the medical contrast medium market for magnetic resonance imaging, amounted to RMB121,460,000 for the year, representing a year-on-year growth of 13.4% as compared to last year. It has also realised growth in sales as well as enhanced its market position, building a solid foundation for the healthy development of Consun Pharmaceutical’s product line of medical contrast medium for magnetic resonance imaging in the long run.

ACQUISITION OF YULIN PHARMACEUTICAL

Consun Pharmaceutical has also been actively expanding its business. It successfully won the bid to acquire 15% 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**”) on 6 August 2015 and continued to increase its total equity interests held in Yulin Pharmaceutical to 45.27% through the second and third round of acquisition of 14.85% and 15.42% equity interests in Yulin Pharmaceutical subsequently in the second half of 2015. It further signed a conditional acquisition agreement on 23 November 2015 for the fourth round of acquisition. Subject to shareholders’ approval by voting at the extraordinary general meeting, Consun Pharmaceutical would hold an aggregate of approximately 51.03% equity interests in Yulin Pharmaceutical and become its controlling shareholder.

Yulin Pharmaceutical is a Chinese medicine manufacturing enterprise principally engaged in the research and development, production and sales of Chinese medicines and natural medicines. The acquisition of Yulin Pharmaceutical could facilitate the integration of resources of Consun Pharmaceutical and Yulin Pharmaceutical in terms of marketing, innovation and R&D, production and manufacturing as well as supply chains, so that we can complement each other with our own strengths. Besides, given the rich cultural heritage in the pharmaceutical sector, enriched product mix and solid market foundation of both parties, it is believed that the cooperation would achieve a win-win situation by fully realising the synergy between the parties, further exploring our respective potential and enhancing our competitiveness in the market.

FINANCIAL REVIEW

Revenue

For the year of 2015, the Group's revenue was RMB831,108,000, representing an increase of approximately 13.7% as compared with the RMB730,683,000 for 2014. Categorized by product lines, sales of kidney medicines recorded an increase of 11.1% compared with last year; sales of medical contrast medium recorded an increase of 13.4% compared with last year; sales of other medicines recorded an increase of 49.0% compared with last year. The increase in revenue was mainly attributable to the Group's efforts to develop the market segments intensively, to extend our coverage over hospitals and physicians, so as to increase sales of the Group's medicines.

Gross Profit and Gross Profit Margin

For the year of 2015, the Group's gross profit was RMB670,566,000, representing an increase of 17.3% as compared with the RMB571,767,000 for 2014. The increase in gross profit was mainly attributable to the increase in sales. For the year of 2015, the Group's average gross profit margin was 80.7%, representing an increase of 2.4% as compared with the 78.3% for the last year, which was mainly attributable to the economy of scale as a result of the increases in production volume, which drive down the average unit production costs.

Other Revenue

For the year of 2015, the Group's other revenue was RMB32,830,000, which mainly included the government grants and interest income. Compared with the other revenue of RMB37,585,000 for 2014, the decrease was mainly attributable to the decrease in government grants received which were decided by the local government in its sole discretion, and the decrease in interest income due to the drops in balance at bank and deposit interest rates during the year.

Distribution Costs

For the year of 2015, the Group's distribution costs was RMB259,043,000, representing an increase of 12.2% as compared with the RMB230,971,000 for 2014. The increase in distribution costs was mainly attributable to the Group's dedication in expending the marketing and distribution networks by recruiting additional marketing staff and increasing marketing and academic promotion activities during the year.

Administrative Expenses

For the year of 2015, the Group's administrative expenses was RMB122,946,000, representing an increase of 7.7% as compared with the RMB114,126,000 for 2014. The increase in administrative expenses was mainly attributable to the increase in administrative work and costs in relation to the new version of Good Manufacturing Practices for Drugs during the year.

Finance Costs

During the year ended 31 December 2015, finance costs of RMB441,000 (2014: Nil) were incurred by the Group in respect of short-term bank loans.

Income Tax

For the year of 2015, the Group's income tax expense was RMB65,093,000, representing an increase of 22.9% as compared with the RMB52,959,000 for 2014. The effective tax rate (income tax expense divided by profit before taxation) increased slightly by 0.7% from 20.0% for 2014 to 20.7% for 2015, mainly due to the increase in expenses not deductible for tax purposes during the year.

Annual Profit and Earnings Per Share

For the year of 2015, the Group's annual profit was RMB249,689,000, representing an increase of 18.2% as compared with the RMB211,200,000 for 2014. The earnings per share (basic and diluted) increased by approximately RMB0.04 from RMB0.21 for 2014 to RMB0.25 for 2015.

LIQUIDITY AND FINANCIAL RESOURCES

Trade Debtors and Bills Receivable

As at 31 December 2015, the balance of trade debtors and bills receivable was RMB363,703,000, representing an increase of 56.7% as compared with the balance of RMB232,144,000 as at 31 December 2014. Trade receivables turnover days for 2015 were 130.8 days, increased by 18.2 days from 112.6 days for 2014. It was mainly attributable to the increase in customers used bank acceptance bills with longer tenor to settle their purchases.

Inventories

As at 31 December 2015, the balance of inventories was RMB71,014,000, representing an increase of 32.8% as compared with the balance of RMB53,482,000 as at 31 December 2014. Inventory turnover days for 2015 were 141.5 days, increased by 25.5 days from 116.0 days for 2014. It was mainly attributable to the increase in proportion of sales of other medicines which have longer inventory turnover days and the stock up of raw materials to prepare for the production needs.

Trade Payables

As at 31 December 2015, the balance of trade payables was RMB39,760,000, representing an increase of 9.2% as compared with the balance of RMB36,416,000 as of 31 December 2014. Trade payables turnover days for 2015 were 86.6 days, increased by 22.1 days from 64.5 days for 2014. It was mainly attributable to longer credit periods obtained from the suppliers.

Cash Flows

For the year of 2015, the Group's net cash inflow from operating activities was RMB184,043,000, representing a decrease of 37.6% as compared with the RMB294,721,000 for 2014, which was mainly attributable to the increase in customers used bank acceptance bills with longer tenor to settle their purchases. For the year of 2015, the Group's net cash outflow from investing activities was RMB455,806,000, representing an increase of 83.6% as compared with the RMB248,279,000 for 2014, which was mainly attributable to the acquisition of 45.27% equity interest in an associated company during the year. For the year of 2015, the Group's net cash outflow from financing activities was RMB81,919,000, representing a decrease of 21.8% as compared with the RMB104,799,000 for 2014, which was mainly attributable to the payment of listing expenses in 2014 which was not recurrent in 2015.

Cash and Bank Balances and Borrowings

As at 31 December 2015, the Group's cash and bank balances were RMB489,987,000, representing a decrease of 41.9% as compared with the RMB843,669,000 as at 31 December 2014, which was mainly attributable to the acquisition of 45.27% equity interest in an associated company during the year. The Group did not have any interest bearing borrowings as at 31 December 2015 (31 December 2014: Nil).

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING OF SHARES

The net proceeds from the initial public offering of shares on the Stock Exchange on 19 December 2013 (after deducting the listing expenses of approximately RMB78,263,000) were approximately RMB774,662,000.

During 2015, the Group used the net proceeds according to the manner as disclosed in the Listing Prospectus (the "Prospectus"):

Intended use of proceeds	Intended use of proceeds percentage	Intended use of proceeds RMB'000	Utilised RMB'000	Balance as at 31 December 2015 RMB'000
1 for infrastructure investment	40%	309,865	35,500	274,365
2 for research and development activities	20%	154,933	59,938	94,995
3 for expansion of marketing and distribution networks	15%	116,199	116,199	-
4 for merger and acquisition	15%	116,199	116,199	-
5 for working capital and other general corporate purposes	10%	77,466	77,466	-
	<u>100%</u>	<u>774,662</u>	<u>405,302</u>	<u>369,360</u>

As 31 December 2015, the balance of proceeds was placed with recognised financial institutions as short-term deposits to earn interest income. As of the date of this report, the Directors are not aware of material change to the intended use of the proceeds as stated in the Prospectus.

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 2015. 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 (total interest bearing borrowings over shareholders' equity) of the Group as at 31 December 2015 was 0% (31 December 2014: 0%).

FOREIGN EXCHANGE EXPOSURE

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 and 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 year, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

CAPITAL STRUCTURE

During the year of 2015, the Company repurchased 2,243,000 ordinary shares from the market and cancelled those shares on 30 December 2015. 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 31 December 2015, the Group had capital commitments of approximately RMB8,096,000 (31 December 2014: RMB9,051,000).

INFORMATION ON EMPLOYEES

As at 31 December 2015, the Group hired a total of 1,303 employees (31 December 2014: 1,193 employees). The total staff costs (including the directors' remuneration) for the year ended 31 December 2015 was RMB154,127,000 (2014: RMB175,115,000). The salaries of the employees were determined with reference to individual performance, work experience, qualification and current industry practices.

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

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

SIGNIFICANT INVESTMENTS HELD

Except for investments in subsidiaries and associated companies, during the year ended 31 December 2015, 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 Prospectus, the Group did not have other future plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year ended 31 December 2015, the Group acquired approximately 45.27% equity interest of Yulin Pharmaceutical at the total consideration of approximately RMB641,334,000 and Yulin Pharmaceutical and its subsidiaries became associated companies of the Group. On 23 November 2015, the Group entered into a conditional equity transfer agreement to acquire further approximately 5.76% equity interest in Yulin Pharmaceutical at the consideration of approximately RMB69,361,000. If the proposed further acquisition is approved by the shareholders at the forthcoming extraordinary general meeting, the Group will hold in aggregate approximately 51.03% equity interest in Yulin Pharmaceutical and Yulin Pharmaceutical will become a subsidiary of the Group. Other than these, the Group did not have any other material acquisitions and disposals of subsidiaries and affiliated companies during 2015.

PLEDGE OF ASSETS

As at 31 December 2015, the Group did not have any pledged assets (31 December 2014: Nil).

CONTINGENT LIABILITIES

As at 31 December 2015, the Group did not have any material contingent liabilities (31 December 2014: Nil).

PRINCIPAL RISKS AND UNCERTAINTIES

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the year of 2015, there was no incidence of significant non-compliance of laws and regulations that is relevant to the Group's operations.

OUTLOOK

In light of the continuously deepening reform of the medical and healthcare system, gradual rationalisation of management over drug prices and gradual elimination of uncertainties affecting the pharmaceutical industry, we believe that the pharmaceutical industry will be embracing a stable mid-long term development in the future. Upholding a development strategy of "based on specialties and complemented by generics", Consun Pharmaceutical will continue to explore the chronic kidney diseases sector and MRI medical contrast medium sub-sector. It will also continue to improve its operating management efficiency, with a view to stimulate enthusiasm, exploit potential, enhance competitiveness and increase the values of the Company.

OTHER INFORMATION

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

During the year ended 31 December 2015, the Company repurchased 2,243,000 shares of its own ordinary shares through the Stock Exchange at a total consideration of HK\$10,542,000 (approximately RMB8,840,000) and the Trustee purchased 10,472,000 awarded shares according to the Share Award Scheme at a total consideration of HK\$56,357,000 (approximately RMB44,638,000). 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 year ended 31 December 2015.

Pre-emptive Rights

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

Corporate Governance

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

The Company has adopted and complied with the code provisions (the “**Code Provisions**”) set out in Appendix 14 “Corporate Governance Code and Corporate Governance Report” to the Listing Rules during the year ended 31 December 2015.

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 2015.

Audit Committee

The Company established an audit committee (the “**Audit Committee**”) on 2 December 2013 with written terms of reference in compliance with paragraph C3.3 and C3.7 of the Code Provisions. Its terms of reference were amended on 16 December 2015 and came into effective from 1 January 2016, which are available on the websites of the Company and the Stock Exchange.

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

As at the date of this annual results 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 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.

Events after the reporting period

After the end of the reporting period, the Company repurchased 9,501,000 shares of its own ordinary shares through the Stock Exchange at a total consideration of HK\$40,642,000 (approximately RMB34,288,000). The shares repurchased by the Company were subsequently cancelled on 26 February 2016.

Dividends

The Directors proposed to declare a final dividend of RMB74,119,000 (RMB0.075 per share) for the year ended 31 December 2015. The proposed final dividend is subject to approval by the shareholders of the Company at the annual general meeting to be held on Friday, 13 May 2016 and, if approved, is expected to be paid on or about Wednesday, 1 June 2016 to shareholders whose names appear on the register of members of the Company on Tuesday, 24 May 2016.

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, 13 May 2016, the Company's register of members will be closed from Tuesday, 10 May 2016 to Friday, 13 May 2016 (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, 9 May 2016.

In addition, to determine shareholders' entitlement to the final dividend, the Company's register of members will be closed from Thursday, 19 May 2016 to Tuesday 24 May 2016 (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, Wan Chai, Hong Kong, not later than 4:30 pm on Wednesday, 18 May 2016.

ANNUAL GENERAL MEETING

The annual general meeting will be held on Friday, 13 May 2016. 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.

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 2015 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 March 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 as non-executive Director; Mr. SU Yuanfu, Mr. FENG Zhongshi and Ms. CHENG Xinxin as independent non-executive Directors.