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 2018

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2018 amounted to RMB1,843,973,000, representing an increase of approximately 11.1% as compared with the year ended 31 December 2017.
- Profit for the year ended 31 December 2018 attributable to equity shareholders of the Company amounted to RMB465,353,000, representing an increase of approximately 17.4% as compared with the year ended 31 December 2017.
- Basic and diluted earnings per share for the year ended 31 December 2018 amounted to approximately RMB0.5444 and RMB0.5300 respectively, representing increases of approximately 18.3% and 16.0% respectively as compared with the same for the year ended 31 December 2017.
- The Board proposed to declare a final dividend of HKD0.20 per share for the year ended 31 December 2018.

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Consun Pharmaceutical Group Limited (the "**Company**") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively the "**Group**" or "**Consun Pharmaceutical**") for the year ended 31 December 2018 (the "**Annual Results**"), together with the comparative figures of 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note) RMB'000
Revenue	2	**1,843,973**	1,660,230
Cost of sales		**(459,547)**	(431,835)
Gross profit		**1,384,426**	1,228,395
Other (loss)/income	3	**(2,194)**	35,102
Distribution costs		**(561,537)**	(540,264)
Administrative expenses		**(176,527)**	(163,497)
Profit from operations		**644,168**	559,736
Finance costs	4(a)	**(27,469)**	(14,754)
Profit before taxation	4	**616,699**	544,982
Income tax	5(a)	**(119,208)**	(123,162)
Profit for the year		**497,491**	421,820
Attributable to:			
– Equity shareholders of the Company		**465,353**	396,242
– Non-controlling interests		**32,138**	25,578
Profit for the year		**497,491**	421,820
Earnings per share (RMB yuan)	6		
– Basic		**0.5444**	0.4602
– Diluted		**0.5300**	0.4570

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in Renminbi)

	2018	2017
		(Note)
	RMB'000	*RMB'000*
Profit for the year	**497,491**	421,820
Other comprehensive income for the year that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "**PRC**"), net of tax	**7**	(13)
Total comprehensive income for the year	**497,498**	421,807
Attributable to:		
– Equity shareholders of the Company	**465,360**	396,229
– Non-controlling interests	**32,138**	25,578
Total comprehensive income for the year	**497,498**	421,807

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 (Note) RMB'000
Non-current assets			
Investment property	*8*	**17,200**	17,876
Other property, plant and equipment	*9*	**561,785**	400,797
Lease prepayments	*10*	**129,643**	132,777
Intangible assets	*11*	**430,800**	460,215
Goodwill	*12*	**320,647**	320,647
Other investments	*13*	**–**	2,600
Other prepayments	*14*	**5,706**	17,740
Deferred tax assets		**35,102**	34,714
Total non-current assets		**1,500,883**	1,387,366
Current assets			
Inventories	*15*	**210,310**	200,001
Trade and other receivables	*16*	**916,099**	995,085
Cash and cash equivalents	*17*	**1,269,746**	989,565
Total current assets		**2,396,155**	2,184,651
Current liabilities			
Trade and other payables	*18*	**750,804**	679,722
Loans and borrowings	*19*	**147,202**	193,621
Deferred income		**1,655**	1,554
Current taxation		**99,492**	95,336
Total current liabilities		**999,153**	970,233
Net current assets		**1,397,002**	1,214,418

	Note	2018 RMB'000	2017 (Note) RMB'000
Total assets less current liabilities		**2,897,885**	2,601,784
Non-current liabilities			
Loans and borrowings	*19*	**245,336**	374,483
Deferred income		**18,320**	20,741
Deferred tax liabilities		**137,217**	142,412
Total non-current liabilities		**400,873**	537,636
Net assets		**2,497,012**	2,064,148
Capital and reserves			
Share capital		**68,782**	68,652
Reserves		**2,088,437**	1,678,036
Total equity attributable to equity shareholders of the Company		**2,157,219**	1,746,688
Non-controlling interests		**339,793**	317,460
Total equity		**2,497,012**	2,064,148

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 1(b).

1 BASIS OF PREPARATION

(a) Statement of compliance

The financial information included in this announcement does not constitute the Group's consolidated financial statements but is derived from those financial statements which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. Those financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

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

(b) Changes in accounting policies

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

(i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

There is no impact of transition to HKFRS 9 on retained earnings and reserves at 1 January 2018.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. *Classification of financial assets and financial liabilities*

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	**Reclassification**	**HKFRS 9 carrying amount at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Financial assets carried at amortised costs			
Cash and cash equivalents	989,565	–	989,565
Trade and other receivables	995,085	–	995,085
	1,984,650	–	1,984,650
Financial assets carried at FVPL			
Equity securities not held for trading *(Note)*	–	2,600	2,600
Financial assets classified as available-for-sale under HKAS 39 *(Note)*			
Other investment *(Note)*	2,600	(2,600)	–

Note: Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability as at FVPL at 1 January 2018.

b. *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit losses" ("**ECL**") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables); and

– lease receivables.

The Group has concluded that there was no material impact for the initial application of the new requirements.

c. *Transition*

Changes in accounting policies resulting from the adoption of HKFRS 9 had no impact on retained earnings and reserves as at 1 January 2018.

The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group).

If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(ii) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018 (if any).

There is no impact of transition to HKFRS 15 on retained earnings at 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. *Timing of revenue recognition*

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sales of goods and this change in accounting policy has had no effect on retained earnings as at 1 January 2018.

b. *Significant financing component*

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

It is not common in the Group's arrangements with its customers to receive payment in advance or significantly deferred. This change in accounting policy has had no effect on retained earnings as at 1 January 2018.

c. *Presentation of contract assets and liabilities*

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue, or when the Group receives consideration from a customer and expects to refund some or all of that consideration to the customer (i.e. refund liability). For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

To reflect this change in presentation, contract liabilities, including receipts in advance from customers with amount of RMB6,097,000, and, refund liabilities, including sales rebates payable to customers with amount of RMB66,677,000, are now separately presented under trade and other payables at 31 December 2018, as a result of the adoption of HKFRS 15. No contract assets are recognized by the Group.

(iii) HK (IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to be used on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

2 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the manufacturing and sales of pharmaceutical products. Further details regarding the Group's principal activities are disclosed in note 2(b).

Disaggregation of revenue

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

	2018	2017
	RMB'000	*RMB'000*
Kidney medicines	**928,360**	814,926
Contrast medium	**128,056**	119,831
Orthopedics medicines	**250,171**	224,334
Dermatologic medicines	**222,025**	220,995
Hepatobiliary medicines	**111,233**	102,515
Women and children medicines	**130,444**	110,320
Others	**73,684**	67,309
	1,843,973	1,660,230

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

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

	2018	2017
	RMB'000	*RMB'000*
Customer A	**419,528**	384,087
Customer B	**400,573**	234,280

As at 31 December 2018, full amount of the transaction price under the Group's existing contracts was recognised as revenue.

(b) Segment reporting

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

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

– Yulin Pharmaceutical Segment: this segment manufactures and sells traditional Chinese medicines.

(i) Segment results, assets and liabilities

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

Segment assets include all tangible, intangible assets and current assets with the exception of interests in associates, investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include provision for electronic product warranties, trade creditors, accruals and bills payable attributable to the manufacturing and sales activities of the individual segments managed directly by the segments.

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

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

	Consun Pharmaceutical Segment		**Yulin Pharmaceutical Segment**		**Total**	
For the year ended 31 December	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Disaggregated by timing of revenue recognition						
Point in time	**1,219,586**	1,060,505	**624,387**	599,725	**1,843,973**	1,660,230
Reportable segment revenue						
Revenue from external customers	**1,219,586**	1,060,505	**624,387**	599,725	**1,843,973**	1,660,230
Reportable segment profit						
Gross profit	**976,447**	848,253	**407,979**	380,142	**1,384,426**	1,228,395
Reportable segment assets	**2,145,240**	2,126,155	**1,719,492**	1,410,783	**3,864,732**	3,536,938
Reportable segment liabilities	**791,408**	826,683	**369,114**	441,201	**1,160,522**	1,267,884

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

	2018	2017
	RMB'000	*RMB'000*
Reportable segment gross profit derived from the Group's external customers	**1,384,426**	1,228,395
Other (loss)/income *(note 3)*	**(2,194)**	35,102
Distribution costs	**(561,537)**	(540,264)
Administrative expenses	**(176,527)**	(163,497)
Finance costs *(note 4(a))*	**(27,469)**	(14,754)
Consolidated profit before taxation	**616,699**	544,982

(iii) ***Geographic information***

Analysis of the Group's revenue and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical market has not been presented as 99% of the Group's operating profit is derived from activities of manufacturing and sales of pharmaceutical products in the PRC.

3 OTHER (LOSS)/INCOME

	2018	2017
	RMB'000	*RMB'000*
Government grants (i)		
– Unconditional subsidies	**1,981**	6,708
– Conditional subsidies	**2,466**	2,344
Net rental income from investment properties (ii)	**1,049**	311
Interest income	**11,316**	3,419
Loss on disposal of property, plant and equipment	**(231)**	(307)
Net exchange (loss)/gains	**(22,242)**	23,192
Others	**3,467**	(565)
	(2,194)	35,102

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

– Unconditional subsidies

The entitlements to certain government grants amounting to RMB1,981,000 (2017: RMB6,708,000) were unconditional. They were funds to subsidise the operating expenses of the PRC subsidiaries of the Group during the current or prior years.

– Conditional subsidies

The remaining government grants were conditional government grants and initially recorded as deferred income. The amount of conditional government grants charged to the consolidated statement of profit or loss for the year ended 31 December 2018 was RMB2,466,000 (2017: RMB2,344,000).

(ii) Total future minimum lease payments receivables by the Group

Total future minimum lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**1,396**	1,400
After 1 year but within 5 years	**1,201**	930
After 5 years	**1,030**	–
	3,627	2,330

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2018	2017
	RMB'000	*RMB'000*
Interest on bank loans	**22,526**	11,052
Finance charges on bank loans	**4,943**	3,702
	27,469	14,754

(b) Staff costs

	2018	2017
	RMB'000	*RMB'000*
Salaries, wages, bonuses and benefits	**269,636**	322,579
Contributions to defined contribution retirement schemes	**9,335**	8,651
Equity settled share-based payments:		
Share Option Scheme	**8,490**	21,187
	287,461	352,417

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

(c) Other items

	Note	2018 RMB'000	2017 RMB'000
Depreciation			
– Investment property	8	**676**	676
– Other property, plant and equipment	9	**38,292**	33,938
Amortisation			
– lease prepayments	10	**3,134**	3,106
– intangible assets	11	**29,415**	29,414
Auditor's remuneration			
– audit services		**2,100**	2,100
– non-audit services		**450**	770
Impairment losses/(reversal) of trade and other receivables (i)		**4,894**	(2,089)
Net unrealised losses on investment not held for trading (ii)		**2,600**	–
Operating lease charges		**2,920**	2,858
Research and development costs (iii)		**67,937**	45,070
Cost of inventories (iv)	15	**459,547**	431,835

(i) During the year ended 31 December 2018, provision for doubtful debts of RMB4,894,000 (2017: reversal of provision for doubtful debts of RMB2,089,000) was recognized, among which RMB5,000,000 were debts subsequently collected that had been written off in previous year (2017: Nil).

(ii) During the year ended 31 December 2018, net unrealized losses on investment not held for trading of RMB2,600,000 (2017: nil) was recognized, representing the fair value change of the investment.

(iii) During the year ended 31 December 2018, research and development costs included RMB25,237,000 (2017: RMB20,442,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in the note 4(b) for each of these types of expenses.

(iv) During the year ended 31 December 2018, cost of inventories include RMB81,576,000 (2017: RMB81,777,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in the note 4(b) for each of these types of expenses.

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2018	2017
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax for the year	**130,068**	127,354
Over-provision for PRC income tax in respect of prior years	**(5,277)**	(554)
	124,791	126,800
Deferred tax		
Origination and reversal of temporary differences	**(5,583)**	(3,638)
	119,208	123,162

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "**BVI**"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) No provision was made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax for the year ended 31 December 2018 (2017: Nil).

(iii) Taxable income for the subsidiaries of the Company in the PRC is subject to PRC income tax rate of 25%, unless otherwise specified below.

Consun Pharmaceutical (Inner Mongolia) Co., Ltd. ("**Inner Mongolia Consun**") and Guangzhou Consun Pharmaceutical Company Limited ("**Guangzhou Consun**") were qualified as an "Advanced and New Technology Enterprise", Inner Mongolia Consun and Guangzhou Consun were entitled to the preferential income tax rate of 15% from 2018 to 2020 and 2017 to 2019, respectively.

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

Guangxi Yulin Pharmaceutical Group Yuming Chinese Traditional Medicine Co., Limited ("**Yuming Chinese Traditional Medicine**"), Guangxi Yulin Pharmaceutical Group Hongsheng Trading Co., Limited ("**Hongsheng Trading**") and Guangxi Yulin Yunxiang Real Estate Co., Limited ("**Yunxiang Real Estate**") met the criteria for preferential income tax rate granted to small and low profit-making enterprises in the PRC, and were entitled to the preferential income tax rate of 10% in 2018 (2017: 10%).

Guangxi Yulin Pharmaceutical Group Yonglv Chinese Traditional Medicine Industry Co., Limited ("**Yonglv Chinese Traditional Medicine**") met the exemption criteria on income generated through planting of agricultural products and was exempted from PRC income tax in 2018 and 2017.

(iv) According to the relevant tax law and its implementation rules, dividends receivable by non-PRC-resident corporate investors from PRC-resident enterprises are subject to withholding tax at 10%. The Group has adopted the withholding tax rate at 10% for PRC withholding tax purposes.

The Directors have determined that in determining the amounts of dividends to be distributed from PRC subsidiaries to the Hong Kong incorporated subsidiary in future, the amounts of dividends declared or to be declared by the Company and the repayment schedule of loans and borrowings of the Company would be considered. As at 31 December 2018, deferred tax liabilities of RMB58,003,000 (31 December 2017: RMB58,003,000) have been provided based on the expected dividends to be distributed from Guangzhou Consun to the Company in the foreseeable future.

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

	2018	2017
	RMB'000	*RMB'000*
Profit before taxation for the year	**616,699**	544,982
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**175,188**	144,299
Effect of non-deductible expenses	**21,565**	22,072
Effect of tax concessions	**(72,268)**	(59,808)
Dividend withholding tax	**–**	17,153
Over-provision in respect of prior years	**(5,277)**	(554)
Actual tax expenses	**119,208**	123,162

6 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB465,353,000 (2017: RMB396,242,000) and the weighted average number of ordinary shares of 854,841,000 shares (2017: 861,067,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2018	2017
	'000 shares	*'000 shares*
Issued ordinary shares at 1 January	**873,610**	974,268
Effect of shares repurchased and cancelled	**–**	(100,496)
Effect of issuance of shares	**–**	6,925
Effect of share options exercised	**929**	68
Effect of treasury shares held under the Share Award Scheme	**(19,698)**	(19,698)
Weighted average number of ordinary shares at 31 December	**854,841**	861,067

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2018 is based on the profit attributable to equity shareholders of the Company of RMB465,353,000 (2017: RMB396,242,000) and the weighted average number of ordinary shares of 877,986,000 shares (2017: 867,114,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2018	2017
	'000 shares	*'000 shares*
Weighted average number of ordinary shares at 31 December	**854,841**	861,067
Dilutive effect of deemed issue of shares under the Share Option Scheme	**23,145**	6,047
Weighted average number of ordinary shares (diluted) at 31 December	**877,986**	867,114

7 DIVIDENDS

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

	2018	2017
	RMB'000	*RMB'000*
Interim dividend declared and paid per ordinary share (2017: HKD0.096)	**–**	66,059
Final dividend proposed after the end of the year of HKD0.20 per ordinary share (2017: HKD0.10)	**146,288**	68,943
	146,288	135,002

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

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

	2018	2017
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year of HKD0.10 per ordinary share (2017: HKD0.05)	**68,943**	35,724
Special dividend approved and paid during the year (2017: HKD0.10)	**–**	71,448
	68,943	107,172

8 INVESTMENT PROPERTY

	RMB'000
Cost	
At 1 January 2017, 31 December 2017,1 January 2018 and 31 December 2018	18,890
Accumulated depreciation:	
At 1 January 2017	(338)
Charge for the year	(676)
At 31 December 2017 and 1 January 2018	(1,014)
Charge for the year	(676)
At 31 December 2018	(1,690)
Net book value:	
At 31 December 2018	17,200
At 31 December 2017	17,876

Investment properties of the Group are situated in the PRC.

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

Included in investment property, properties of RMB13,886,000 (2017: RMB13,886,000) are held under operating leases that would otherwise meet the definition of investment property, and properties of RMB5,004,000 (2017: RMB5,004,000) are held for a currently undetermined future use.

Investment properties of the Group were stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. The carrying amounts of the investment properties were not materially different from their fair value as at 31 December 2018 and 2017.

9 OTHER PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Machinery and equipment *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost:						
At 1 January 2017	299,505	161,450	14,204	14,188	10,093	499,440
Transfer from construction in progress	15,264	18,118	–	1,254	(34,636)	–
Other additions	429	2,379	185	1,781	38,314	43,088
Disposals	–	(5,574)	(397)	(851)	–	(6,822)
At 31 December 2017 and 1 January 2018	315,198	176,373	13,992	16,372	13,771	535,706
Transfer from construction in progress	11,482	19,615	9	252	(31,358)	–
Other additions	2,991	1,506	10,472	1,459	184,361	200,789
Disposals	–	(762)	(3,604)	(375)	–	(4,741)
At 31 December 2018	329,671	196,732	20,869	17,708	166,774	731,754
Accumulated depreciation:						
At 1 January 2017	(51,824)	(38,936)	(7,676)	(8,122)	–	(106,558)
Charge for the year	(14,813)	(15,332)	(1,461)	(2,332)	–	(33,938)
Written back on disposal	–	4,398	381	808	–	5,587
At 31 December 2017 and 1 January 2018	(66,637)	(49,870)	(8,756)	(9,646)	–	(134,909)
Charge for the year	(16,417)	(18,421)	(1,560)	(1,894)	–	(38,292)
Written back on disposal	–	724	2,156	352	–	3,232
At 31 December 2018	(83,054)	(67,567)	(8,160)	(11,188)	–	(169,969)
Net book value:						
At 31 December 2018	246,617	129,165	12,709	6,520	166,774	561,785
At 31 December 2017	248,561	126,503	5,236	6,726	13,771	400,797

10 LEASE PREPAYMENTS

	RMB'000
Cost:	
At 1 January 2017	93,618
Additions	49,877
At 31 December 2017, 1 January 2018 and 31 December 2018	143,495
Accumulated amortisation:	
At 1 January 2017	(7,612)
Charge for the year	(3,106)
At 31 December 2017 and 1 January 2018	(10,718)
Charge for the year	(3,134)
At 31 December 2018	(13,852)
Net book value:	
At 31 December 2018	129,643
At 31 December 2017	132,777

Lease prepayments represent prepayments for land use rights paid to the PRC authorities. The leasehold lands are located in the PRC, on which the Group's manufacturing plants were built. The Group was granted land use rights for a period of 50 years initially and the remaining periods range from 30 to 48 years.

11 INTANGIBLE ASSETS

	Patents *RMB'000*	Trademark *RMB'000*	Total *RMB'000*
Cost:			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	248,103	256,233	504,336
Accumulated amortisation:			
At 1 January 2017	(14,707)	–	(14,707)
Charge for the year	(29,414)	–	(29,414)
At 31 December 2017 and 1 January 2018	(44,121)	–	(44,121)
Charge for the year	(29,415)	–	(29,415)
At 31 December 2018	(73,536)	–	(73,536)
Net book value:			
At 31 December 2018	174,567	256,233	430,800
At 31 December 2017	203,982	256,233	460,215

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

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

The recoverable amount of the trademark that has indefinite useful life is determined based on value-in-use calculations by preparing cash flow projections of the relevant CGU derived from the most recent financial forecast approved by the management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated increase rate of 3% in selling price and cost with no growth in sales volume. The cash flows are discounted using a discount rate of 13.65% (2017: 14.94%). The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU. No impairment loss was recognised during the year ended 31 December 2018 (2017: nil).

12 GOODWILL

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

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 3% in selling price and cost with no growth in sales volume. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of 13.65% (2017: 14.94%). The discount rates used are pre-tax and reflects specific risks relating to the relevant CGU. No impairment loss was recognised during the year ended 31 December 2018 (2017: nil).

13 OTHER INVESTMENTS

	31 December 2018 *RMB'000*	1 January 2018 (i) *RMB'000*	31 December 2017 (i) *RMB'000*
Financial assets measured at FVPL (i)			
– unlisted equity securities	–	2,600	–
Available-for-sale financial assets (ii)			
– unlisted equity securities	–	–	2,600

(i) Available-for-sale financial assets were reclassified to financial assets measured at FVPL upon initial application of HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated (see note 1(b)(i)).

(ii) The unlisted equity securities represents an investment in a domestic medicine manufacturer located in Inner Mongolia Autonomous Region of the PRC. The Group owns a 5% equity interest in the domestic medicine manufacturer.

(iii) During the year ended 31 December 2018, net unrealised losses on investment not held for trading of RMB2,600,000 (2017: nil) was recognised, representing the fair value change of the investment not held for trading of the Group.

14 OTHER PREPAYMENTS

	2018	2017
	RMB'000	*RMB'000*
Prepayment for purchase of other property, plant and equipment	**5,022**	13,417
Prepayment for loan facility fees – non-current portion *(note 16(c))*	**684**	4,323
	5,706	17,740

15 INVENTORIES

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**109,960**	89,207
Work in progress	**50,624**	39,908
Finished goods	**49,726**	70,886
	210,310	200,001

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

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories sold	**456,822**	430,850
Write down of inventories	**2,725**	985
	459,547	431,835

16 TRADE AND OTHER RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade debtors and bills receivables, net of loss allowance (a)	**863,992**	970,294
Other debtors, net of loss allowance (b)	**20,279**	15,776
Financial assets measured at amortised cost	**884,271**	986,070
Prepayments (c)	**31,828**	9,015
	916,099	995,085

(a) Ageing analysis

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

	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**691,927**	903,231
3 to 12 months	**158,447**	58,986
Over 12 months	**13,618**	8,077
	863,992	970,294

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

(b) Other debtors

As at 31 December 2018, the Group's other receivables of RMB259,000 (31 December 2017: RMB122,000) were determined to be impaired in full.

(c) Prepayments

Loan facility fees of RMB4,323,000 (31 December 2017: RMB9,266,000) in connection with the three-year term loan (note 19) were prepaid, of which RMB684,000 was expected to be recognised as expenses after more than one year and was classified as non-current and included in other prepayments (note 14), and the remaining amount of RMB3,639,000 which was expected to be recognised as expenses within one year was included in trade and other receivables.

17 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

Cash and cash equivalents comprise:

	2018	2017
	RMB'000	*RMB'000*
Cash at bank and on hand	**1,269,746**	989,565

18 TRADE AND OTHER PAYABLES

	31 December 2018	1 January 2018	31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
Trade payables	**92,755**	68,739	68,739
Contract liabilities (i)	**6,097**	4,220	–
Refund liabilities (ii)	**66,677**	60,924	–
Receipts in advance	**–**	–	4,220
Accrued expenses	**257,926**	236,738	236,738
Employee benefits payable	**188,242**	174,995	174,995
Other payables	**139,107**	134,106	195,030
	750,804	679,722	679,722

(i) As a result of the adoption of HKFRS 15, receipts in advance from customers are included in contract liabilities (see note 1(b)(ii)).

(ii) As a result of the adoption of HKFRS 15, sales rebates payable to customers are included in refund liabilities (see note 1(b)(ii)).

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

	2018	2017
	RMB'000	*RMB'000*
Within 1 month	**45,355**	31,129
1 to 12 months	**44,318**	36,619
Over 12 months	**3,082**	991
	92,755	68,739

19 LOANS AND BORROWINGS

At 31 December 2018, loans and borrowings were unsecured bank loans and were repayable as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 1 year	**147,202**	193,621
After 1 year but within 2 years	**245,336**	140,431
After 2 years but within 3 years	**–**	234,052
	245,336	374,483
	392,538	568,104

A three-year term loan which amounted to HKD560,000,000 was included in loans and borrowings and is interest-bearing at 2.00% per annum over the relevant HIBOR, with repayment schedule from 2018 to 2020.

As at 31 December 2018, certain bank loans of the Group amounted to RMB392,538,000 (31 December 2017: RMB548,104,000) are subject to the fulfilment of covenants relating to certain of the Group's or the subsidiaries' financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group had breached the covenants the drawn down loans would have become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2018, none of the covenants relating to drawn down loans had been breached (31 December 2017: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY AND BUSINESS OVERVIEW

I. The Group's overall business scale reached RMB1.84 billion

In 2018, Consun Pharmaceutical Group embarked the new development stage for the next two decades and began the implementation of the "2018-2022 Strategic Planning". All Consun staff strived for the strategic goals with hard work and proactive and pragmatic spirits.

The Group's revenue amounted to RMB1.84 billion and increased by 11.1% year-to-year in 2018. Among which, the scale of our core business (excluding the Yulin Pharmaceutical Segment) exceeded RMB1.2 billion. The Company recorded profit attributable to its equity shareholders of RMB465 million, representing a year-to-year growth of 17.4%, thereby rewarding our shareholders with more remarkable results for their dedicated trust and support to the Company.

Operating data of our core business (Consun Pharmaceutical Segment) is as follows:

1) The sales of kidney medicines amounted to RMB928 million in 2018, representing a significant year-to-year growth of 13.9%.

2) The sales of products in the medical contrast medium market amounted to RMB128 million, representing a year-to-year increase of 6.9%, which maintained Consun Pharmaceutical's solid market position in medical contrast medium for magnetic resonance imaging.

3) Women and children medicines continued the rapid growth, with sales revenue increased by 18.2% year-to-year to RMB130 million, which have become an emerging force that contributes to our business results.

Operating data of Yulin Pharmaceutical Segment is as follows:

1) In 2018, Yulin Pharmaceutical Segment recorded revenue of RMB624 million, representing a year-to-year growth of approximately 4.1%. Its profits after tax amounted to RMB148 million (including those attributable to non-controlling interest shareholders and excluding amortisation expenses of approximately RMB29 million on consolidation of Consun), representing a year-to-year growth of approximately 20.2%. Among which, sales revenue of orthopedics medicines amounted to approximately RMB250 million, representing a year-to-year growth of approximately 11.5%; sales revenue of dermatologic medicines amounted to approximately RMB222 million, representing a year-to-year growth of approximately 0.5%; sales revenue of Hepatobiliary medicines amounted to approximately RMB111 million, representing a year-to-year growth of approximately 8.5 %.

   Since becoming a controlling subsidiary of Consun Pharmaceutical Group in July 2016, a total of over RMB76 million was distributed to Consun Pharmaceutical Group and other non-controlling interests as dividends at a payout ratio of approximately 30%.

2) Industrial relocation from city to industrial park made steady progress and the Chinese time-honored brand gained new momentum.

   The relocation of Yulin Pharmaceutical to the industrial park has progressed smoothly. On 20 January 2019, Yulin Pharmaceutical held the topping-out ceremony at the Yulin Chinese Medicine Health Industrial Park. Currently, the topping-out of 8 buildings in the north zone has been basically completed and the construction of the new zone has entered a new stage.

   The preparation work for renovating the old plant area also made certain breakthrough. The Group has finalized the modes of land grants and agreed on the conditions for cooperation with relevant government authorities. It is currently in negotiations for business partners.

3) The feasibility study and preparatory works for the spin off of Yulin Pharmaceutical to the PRC A shares market have been going well.

II. R&D AND INNOVATION

In mid-March 2018, Consun Pharmaceutical Group received approval of the former China Food and Drug Administration in relation to the clinical study of its self-developed new medicine for diabetic kidney disease. As of now, it has completed the pilot-scale study and clinical study proposal (draft) for the placebo. Research on institutions participating in the clinical study is now underway and the production of clinical samples will start soon. The new medicine for diabetic kidney disease is a pure Chinese medicine self-developed by Consun with modern advanced technology, which will offer new alternatives to treatment of diabetic kidney disease.

In late September 2018, the "Expert Consensus on the Clinical Application of Kidney Repair and Edema Alleviation Granules" was officially presented at the 2018 Academic Conference of Kidney Disease Division of China Association of Chinese Medicine cum 31st China Chinese Medicine and Kidney Disease Academic Symposium. In accordance with prudent and scientific principles, the consensus was reached by domestic Chinese and Western medical practitioners, clinical specialists in kidney diseases, pharmacologists and statisticians, who had been invited by the China Association of Chinese Medicine and the Expert Committee for Chinese Medicine Development and Research for Kidney Disease of China Association of Traditional Chinese Medicine to consolidate and analyze results of research conducted before and after the launch of Kidney Repair and Edema Alleviation Granules. Based on the origin of the "Yang-Raising and Stomach-Boosting Decoction" (升陽益胃湯) formula, the clinical experience of Professor Zhang Qi (a reputed Chinese Medicine master) and other contemporary renal experts in integrating Chinese and Western medicine to treat chronic glomerulonephritis and nephrotic syndrome, and the latest clinical study results, the "Expert Consensus" represents our wisdom gathered from preliminary survey, consensus formation and consensus refinement.

In 2018, the Lanthanum Carbonate Project had a major breakthrough and succeeded in the development of active pharmaceutical ingredients and preparations as well as the trial production of chewable tablets and granules. On the other hand, the research on production process and formulation of quality standards were completed for the Ultrasound Micro-bubble Contrast Medium Project. As micro-bubble application facilitates precision treatment and enables treatment and diagnosis at the same time, it has become a notable field in the pharmaceutical sector and earned the name "theranostic agents". The Company has established the first fully-enclosed automatic ultrasound micro-bubble production line with mature technology in both China and Asia, and it is expected to submit clinical applications for products in 2020.

The revised 2018 National List of Essential Medicines was finalized on 25 October 2018. Our flagship product UCG remained on the list and our exclusive "Yuanli Kang® – Iron-dextrin Oral Solution" was included for the first time, thus leaving great room for imagination of future business growth. In particular, Yuanli Kang®, which is our key product for women and children, has recorded a sales revenue of over RMB112 million for 2018 and is expected to maintain a CAGR at approximately 30% in the next three years, which is attributable to the shift from sales through agency to direct sales since 2015, as well as the nationwide sales service network and professional academic promotion team.

III. ACTIVELY GAINING CAPITAL MARKET EXPOSURE AND ADMITTED FOR STOCK CONNECT

On 6 February 2018, Consun Pharmaceutical (1681.HK) was admitted as a constituent of the Hang Seng Stock Connect Hong Kong Index, effective from 5 March. Since then, mainland investors may purchase our shares directly through the Stock Connect. The admission directly enables us to gain access to more diverse investors and effectively broaden the investor base. It also enhances our stock liquidity and better reflects the value of long-term investment in the Group.

Based on the latest information of Shenzhen-Hong Kong Stock Connect from Gelonghui, the shareholding of domestic investors has increased to 2.15% (3.5% at the highest), which demonstrates domestic and overseas institutional investors' recognition of the long-term investment value of Consun Pharmaceutical and the Chinese medicine industry.

IV. THE GROUP RELEASED THE "2018-2022 TOP STRATEGY"

Riding on the success of the five-year strategic planning, Consun initiated Project Wildfire where the sales force in ten major provinces made a collective undertaking and drew up schedules for meeting the sales targets of RMB100 million, RMB200 million and RMB300 million in their respective provinces.

V. PROMOTING TALENT NURTURE AND TEAM BUILDING ON MULTIPLE FRONTS

1. After nearly a year of preparation, the job qualification assessment was held at the OTC Marketing Center in September 2018. A total of 366 employees took the written and practical skills assessment on ten basic skills of regional managers and five basic skills of marketing officers over 19 days. 59 regional managers and 294 academic representatives/business managers passed the assessment.

   The 6th promotion assessment for regional managers and academic promotion officers was held at the Prescription Drug Marketing Center in November 2018. The talent assessment, nurture and development system of the prescription drug marketing team has become more mature after 6 years of refinement.

   With the establishment of the job qualification system and promotion assessment system for the OTC marketing team, Consun Pharmaceutical has developed an assessment system for professional prescription drugs and OTC promotion, which allows it to speed up the building of a high-quality professional academic promotion team for the five-year strategic planning of the Group.

2. Not only is the Group developing, it is also evolving. The year 2018 was crucial for our strategic transformation and upgrade. In the year, we fostered employees' full understanding of themselves and the team, facilitated their breakthrough from a long-term perspective and identified areas of improvement which they most need and recognize at the time in a more effective manner. We also helped the management to grasp the capabilities of team members, explore their potential and formulate development plan. Apart from that, agility and core values training, 360 degree behavioral assessments and other activities were organized by the Human Resources Department of the Company at the Group level to promote more objective, fair and rational talent assessment.

3. In order to motivate the management and employees, following the adoption of the vesting of the 2016-2018 share options, the Company granted a new tranche of 63 million share options in total with a term of three years to certain directors and employees on 2 January 2019, and adopted the third excessive profit incentive scheme for frontline salespersons, with the aim of encouraging them to continue to strive for good progress, higher sales and better results for the Company and the shareholders.

VI. AWARDS FOR FRUITFUL RESULTS IN INNOVATION AND THE PURSUIT OF EXCELLENCE

In 2018, our vice chairlady LI Qian was ranked No. 4 in "China's Top 10 Female CEOs" by Forbes China and Consun Pharmaceutical received the Golden Lion Award for H Share Listed Company in the "Best Investor Relations Management" category. Inner Mongolia Consun was recognized as the "Outstanding Private Enterprise" in the Inner Mongolia Autonomous Region and Guangzhou Consun was accredited as the "Provincial Enterprise Technology Center" in Guangdong Province. Our "Uremic Clearance Granules" was included in the "List of Healthy China's Brands" for the third consecutive year, while the "Iron Dextran Oral Solution" and "Erythromycin Estolate Suspension" were selected as the "Famous Branded Products of Inner Mongolia Autonomous Region".

Yulin Pharmaceutical of the Group was awarded the title of "China's Top 100 Pharmaceutical Enterprises" again and its ranking went up to the 33rd. Its "Zheng Gu Shui" product passed the CE certification of the European Union and is exempted from inspection for import to EU countries.

In 2018, Consun Pharmaceutical received the Golden Lion Award for H Share Listed Company in the "Best Investor Relations Management" category.

In 2018, Consun Pharmaceutical Group stayed committed to "industrial chain operation and international operation". With the aims of making breakthroughs and expanding into a ten-billion enterprise, it empowered organizations and individuals to build up their momentum, strengthened brand image, undertook social responsibilities and started a new chapter for the next two decades of development.

FINANCIAL REVIEW

Revenue

For the year of 2018, the Group's revenue was RMB1,843,973,000, representing an increase of approximately 11.1% as compared with RMB1,660,230,000 for 2017. Categorized by product lines, sales of kidney medicines recorded an increase of approximately 13.9% as compared with last year, among which, Uremic Clearance Granules ("**UCG**") remained the Group's key product, maintained its leading position in oral modern Chinese medicines for kidney diseases; sales of medical contrast medium recorded an increase of approximately 6.9% as compared with last year, maintained a leading position in the domestic medical contrast medium market for magnetic resonance imaging; sales of orthopaedics medicines recorded an increase of approximately 11.5%; sales of dermatologic medicines recorded an increase of approximately 0.5%; sales of hepatobiliary medicines recorded an increase of approximately 8.5%; sales of the Group's women and children medicines recorded an increase of approximately 18.2%; and sales of other pharmaceutical products recorded an increase of approximately 9.5%. Sales of different product lines generally increased due to the Group's continuous efforts to explore product markets and develop sales network around the whole country.

Gross Profit and Gross Profit Margin

For the year of 2018, the Group's gross profit was RMB1,384,426,000, representing an increase of approximately 12.7% as compared with RMB1,228,395,000 for 2017. The increase in gross profit was mainly attributable to the increase in sales. For the year of 2018, the Group's average gross profit margin was approximately 75.1%, representing an increase of 1.1% as compared with the 74.0% for last year, which was mainly attributable to the management effort in maintaining selling prices and controlling production costs for the Group's products.

Other (Loss)/Income

For the year of 2018, the Group's other (loss)/income was net loss of RMB2,194,000, which mainly included government grants, interest income and net exchange loss. Compared with the other net income of RMB35,102,000 for 2017, the change was mainly attributable to the net exchange loss in connection with HKD loans arising from the depreciation of RMB while there was net exchange gains arising from the appreciation of RMB during 2017.

Distribution Costs

For the year of 2018, the Group's distribution costs was RMB561,537,000, representing an increase of approximately 3.9% as compared with RMB540,264,000 for 2017. The increase in distribution costs was mainly attributable to the Group's expansion of marketing and distribution networks by recruiting additional marketing staff and increasing marketing and academic promotion activities during the year.

Administrative Expenses

For the year of 2018, the Group's administrative expenses were RMB176,527,000, representing an increase of approximately 8.0% as compared with RMB163,497,000 for 2017. The increase in administrative expenses was in line with the Group's expansion in operations.

Finance Costs

For the year of 2018, finance costs were RMB27,469,000, representing an increase of approximately 86.2% as compared with RMB14,754,000 for 2017, which was mainly due to the interest arising from a loan which was drawn down in April 2017.

Income Tax

For the year of 2018, the Group's income tax expense was RMB119,208,000, representing a decrease of approximately 3.2% as compared with RMB123,162,000 for 2017. The effective tax rate (income tax expense divided by profit before taxation) decreased by approximately 3.3% from 22.6% for 2017 to 19.3% for 2018. The decrease was mainly due to the increase in provision for dividend withholding tax during 2017 in connection with dividends expected to be distributed from the Group's PRC incorporated subsidiaries to the Hong Kong incorporated subsidiaries in the foreseeable future, and such provision was still sufficient for 2018 and did not need to be further increased.

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

For the year of 2018, the Group's annual profit was RMB465,353,000, representing an increase of approximately 17.4% as compared with RMB396,242,000 for 2017. The basic earnings per share increased by approximately 18.3% from RMB0.4602 for 2017 to RMB0.5444 for 2018, and the diluted earnings per share increase by approximately 16.0% from RMB0.4570 for 2017 to RMB0.5300 for 2018.

LIQUIDITY AND FINANCIAL RESOURCES

Trade Debtors and Bills Receivable

As at 31 December 2018, the balance of trade debtors and bills receivable was RMB863,992,000, representing a decrease of approximately 11.0% as compared with the balance of RMB970,294,000 as at 31 December 2017. Trade receivables turnover days for 2018 were 181.5 days, increased by 13.6 days from 167.9 days for 2017, which was mainly because the Group granted longer credit period to certain strategic customers with good credit standing based on the market situation during the year.

Inventories

As at 31 December 2018, the balance of inventories was RMB210,310,000, representing an increase of approximately 5.2% as compared with the balance of RMB200,001,000 as at 31 December 2017. Inventory turnover days for 2018 were 163.0 days, increased by 18.9 days from 144.1 days for 2017, which was mainly due to the increase in inventory level during the year to prepare for the expected increase in market demand.

Trade Payables

As at 31 December 2018, the balance of trade payables was RMB92,755,000, representing an increase of approximately 34.9% as compared with the balance of RMB68,739,000 as of 31 December 2017. Trade payables turnover days for 2018 were 64.1 days, increased by 1.4 days from 62.7 days for 2017, which remained at a stable level.

Cash Flows

For the year of 2018, the Group's net cash generated from operating activities was RMB754,210,000, representing an increase of approximately 199.1% as compared with RMB252,123,000 for 2017, which was mainly attributable to the decrease in trade receivables and bills receivable during 2018 while there was an increase in trade receivables and bills receivable during 2017. For the year of 2018, the Group's net cash used in investing activities was RMB180,804,000, representing an increase of approximately 201.1% as compared with RMB60,049,000 for 2017, which was mainly due to the construction of plant and acquisition of equipment in Yulin new plant area. For the year of 2018, the Group's net cash used in financing activities was RMB292,425,000, as compared with the net cash generated from financing activities of RMB128,125,000 for 2017, the change was mainly due to the repayment of part of the principals and interest during the year in respect of bank loans drawn down last year.

Cash and Bank Balances and Borrowings

As at 31 December 2018, the Group's cash and bank balances were RMB1,269,746,000, representing an increase of approximately 28.3% as compared with RMB989,565,000 as at 31 December 2017. As at 31 December 2018, the Group's total loans and borrowings amounted to RMB392,538,000, representing a decrease of approximately 30.9% as compared with RMB568,104,000 as at 31 December 2017, which mainly due to the repayment of part of the principals during the year in respect of bank loans drawn down last year.

TREASURY POLICIES

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the year of 2018. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time. Cash and cash equivalents of the Group are mainly denominated in RMB and HKD.

GEARING RATIO

The gearing ratio of the Group, representing the total interest bearing borrowings divided by total equity attributable to equity shareholders of the Company as at 31 December 2018 was 18.2% (31 December 2017: 32.5%). The decrease in gearing ratio was mainly due to the partial repayment of bank loans during the year.

EXCHANGE RATE RISKS

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

CAPITAL STRUCTURE

In 2018, the Company issued a total of 1,580,600 ordinary shares (2017: 1,895,700 ordinary shares) pursuant to employees' exercise of share options granted under the Share Option Scheme (adopted on 2 December 2013). Save as disclosed above, there were no significant changes in the Company's capital structure. The Company's capital comprises ordinary shares and other reserves.

CAPITAL COMMITMENTS

As at 31 December 2018, the Group had capital commitments of approximately RMB494,328,000 (31 December 2017: RMB386,072,000).

INFORMATION ON EMPLOYEES

As at 31 December 2018, the Group hired a total of 2,667 employees (31 December 2017: 2,332 employees). The total staff costs (including the directors' remuneration) for the year ended 31 December 2018 was RMB287,461,000 (2017: RMB352,417,000). The salaries of the employees were determined with reference to individual performance, work experience, qualification and current industry practices.

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

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

SIGNIFICANT INVESTMENTS HELD

Except for investments in its subsidiaries, during the year ended 31 December 2018, the Group did not hold any significant investment in equity interest in any other company.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have any material acquisitions and disposals of subsidiaries and associated companies during 2018.

PLEDGE OF ASSETS

As at 31 December 2018, the Group did not have any pledged assets (31 December 2017: Nil).

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities (31 December 2017: 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 developments of national policies in respect of the 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 practice which are considered in the performance appraisal process.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

During the year of 2018, there was no incidence of significant non-compliance of laws and regulations that is relevant to the Group's operations.

EVENTS AFTER THE REPORTING PERIOD

On 2 January 2019, the Company granted 63,000,000 share options to certain directors and employees. The exercise price of these share options was HKD4.476 per share. The options will vest after one year to three years from the date of grant and are then exercisable on or before 1 January 2029.

During the period from 3 to 25 January 2019, the Company repurchased 3,212,000 shares of its own ordinary shares through the Stock Exchange at a total consideration of approximately HKD15,581,000 (approximately RMB13,518,000). The shares repurchased by the Company will be cancelled in due course.

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

OTHER INFORMATION

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

In 2018, the Company issued a total of 1,580,600 ordinary shares pursuant to employees' exercise of share options granted under Share Option Scheme (adopted on 2 December 2013).

Save for the above, neither the Company nor any of its subsidiaries purchased, sold or redeem any of the Company's listed securities during the year ended 31 December 2018.

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 2018.

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 2018.

Audit Committee

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

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

As at the date of this announcement, the Audit Committee consists of three members and all of them are independent non-executive Directors, namely Ms. CHENG Xinxin (Chairlady), Mr. FENG Zhongshi and Mr. SU Yuanfu. The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters. The Audit Committee also met with the external auditors and reviewed the Annual Results.

Scope of work of KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

Risk management and internal control systems

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

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

The Group has established on-going procedures for identifying, assessing and managing the significant risks involved with the Group. Meanwhile, it reviews the effectiveness of the relevant internal control system. These procedures include but not limited to: (1) the Group has established and continued to improve the risk management structure and internal control mechanism, and has regularly conducted project audit and annual risk assessment according to the risk management system code and annual plan; (2) to identify the significant risks involved in the business and assess the impact of such risks on the business of the Group; (3) information gathering channels, to ensure material or potential inside information being captured and kept confidential until timely disclosure is made in accordance with the Listing Rules; (4) to conduct gap analysis on the internal control measures in response to the significant risks, and make recommendations on the improvement of its internal audit functions; (5) to continuously follow up and supervise the implementation of relevant measures against the recommended improvements. ; (6) continuously update and improve the relevant management systems, authorization manuals and operating procedures to enhance management normalization and efficiency; and (7) establishing a more comprehensive investor relationship management system to ensure investors' understanding of the Company's situation and to protect investors' right to know.

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

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

Annual General Meeting

The annual general meeting will be held on Friday, 31 May 2019. Shareholders should refer to details regarding the annual general meeting in the circular of the Company to be issued in due course and the notice of the annual general meeting and form of proxy accompanying thereto.

Dividends

The Company did not pay any interim in 2018 (2017 interim dividend: HKD0.096 per share, totally approximately RMB66,059,000). The Board proposed to declare a final dividend of HKD0.20 per share (2017: HKD0.10 per share), totally approximately RMB146,288,000 (2017: approximately RMB68,943,000) for the year ended 31 December 2018. The proposed final dividend is subject to approval by the shareholders of the Company at the annual general meeting to be held on Friday, 31 May 2019 and, if approved, is expected to be paid on or about Monday, 17 June 2019 to shareholders whose names appear on the register of members of the Company on Monday, 10 June 2019. The final dividend is declared and will be paid in HKD.

Closure of the Register of Members

To determine the eligibility of the shareholders of the Company to attend the annual general meeting to be held on Friday, 31 May 2019, the Company's register of members will be closed from Tuesday, 28 May 2019 to Friday, 31 May 2019 (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, 27 May 2019.

In addition, to determine shareholders' entitlement to the final dividend, the Company's register of members will be closed from Tuesday, 4 June 2019 to Monday, 10 June 2019 (both days inclusive). In order to qualify for the entitlements to the final dividend, all completed transfers documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716,17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on Monday, 3 June 2019.

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 2018 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, 20 March 2019

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