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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1681)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2019 amounted to RMB1,728,256,000, representing a decrease of approximately 6.3% as compared with the year ended 31 December 2018.
- Profit for the year ended 31 December 2019 attributable to equity shareholders of the Company amounted to RMB79,820,000, representing a decrease of approximately 82.8% as compared with the year ended 31 December 2018. If excluding the impairment of non-cash goodwill and intangible assets of approximately RMB326 million (the portion attributable to equity shareholders of the Company: RMB324 million), the adjusted profit attributable to equity shareholders of the Company would decrease by approximately 13.2% as compared with the year ended 31 December 2018.
- Basic and diluted earnings per share for the year ended 31 December 2019 amounted to approximately RMB0.0940 and RMB0.0934 respectively, representing decreases of approximately 82.7% and 82.4% respectively as compared with the same for the year ended 31 December 2018.
- The Board proposed to declare a final dividend of HKD0.10 per share for the year ended 31 December 2019.

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 2019 (the “**Annual Results**”), together with the comparative figures of 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS*For the year ended 31 December 2019**(Expressed in Renminbi)*

	<i>Note</i>	2019 RMB'000	2018 RMB'000
Revenue	<i>2</i>	1,728,256	1,843,973
Cost of sales		<u>(466,851)</u>	<u>(459,547)</u>
Gross profit		1,261,405	1,384,426
Other losses	<i>3</i>	(1,526)	(2,194)
Distribution costs		(539,204)	(561,537)
Administrative expenses		(231,833)	(176,527)
Impairment loss on goodwill and intangible assets	<i>11, 12</i>	<u>(326,136)</u>	<u>–</u>
Profit from operations		162,706	644,168
Finance costs	<i>4(a)</i>	<u>(29,043)</u>	<u>(27,469)</u>
Profit before taxation	<i>4</i>	133,663	616,699
Income tax	<i>5(a)</i>	<u>(70,541)</u>	<u>(119,208)</u>
Profit for the year		<u>63,122</u>	<u>497,491</u>
Attributable to:			
– Equity shareholders of the Company		79,820	465,353
– Non-controlling interests		<u>(16,698)</u>	<u>32,138</u>
Profit for the year		<u>63,122</u>	<u>497,491</u>
Earnings per share (RMB yuan)	<i>6</i>		
– Basic		<u>0.0940</u>	<u>0.5444</u>
– Diluted		<u>0.0934</u>	<u>0.5300</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

(Expressed in Renminbi)

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Profit for the year	63,122	497,491
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	<u>2,465</u>	<u>7</u>
Total comprehensive income for the year	<u>65,587</u>	<u>497,498</u>
Attributable to:		
– Equity shareholders of the Company	82,285	465,360
– Non-controlling interests	<u>(16,698)</u>	<u>32,138</u>
Total comprehensive income for the year	<u>65,587</u>	<u>497,498</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*As at 31 December 2019**(Expressed in Renminbi)*

	<i>Note</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Non-current assets			
Investment property	<i>8</i>	16,651	17,200
Other property, plant and equipment	<i>9</i>	661,309	561,785
Land use rights	<i>10</i>	126,808	129,643
Intangible assets	<i>11</i>	396,071	430,800
Goodwill	<i>12</i>	–	320,647
Other prepayments	<i>13</i>	51,657	5,706
Deferred tax assets		45,942	35,102
Total non-current assets		1,298,438	1,500,883
Current assets			
Inventories	<i>14</i>	210,684	210,310
Trade and other receivables	<i>15</i>	815,732	916,099
Cash and cash equivalents	<i>16</i>	1,383,232	1,269,746
Total current assets		2,409,648	2,396,155
Current liabilities			
Trade and other payables	<i>17</i>	671,611	750,804
Loans and borrowings	<i>18</i>	553,567	147,202
Deferred income		1,655	1,655
Current taxation		69,461	99,492
Total current liabilities		1,296,294	999,153
Net current assets		1,113,354	1,397,002
Total assets less current liabilities		2,411,792	2,897,885

	<i>Note</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Non-current liabilities			
Loans and borrowings	18	–	245,336
Deferred income		16,739	18,320
Deferred tax liabilities		88,292	137,217
		<hr/>	<hr/>
Total non-current liabilities		105,031	400,873
		<hr/>	<hr/>
Net assets		2,306,761	2,497,012
		<hr/>	<hr/>
Capital and reserves			
Share capital		68,033	68,782
Reserves		1,926,051	2,088,437
		<hr/>	<hr/>
Total equity attributable to equity shareholders of the Company		1,994,084	2,157,219
Non-controlling interests		312,677	339,793
		<hr/>	<hr/>
Total equity		2,306,761	2,497,012
		<hr/>	<hr/>

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

- HKFRS 16, Leases
- Amendments to HKAS 19, Plan amendment, curtailment or settlement
- Annual improvement to HKFRSs 2015-2017 Cycle
- HK(IFRIC) 23, Uncertainty over income tax treatments

Upon the adoption of HKFRS 16 on 1 January 2019, the item name of “lease prepayments” was renamed as “land use rights” on the consolidated statement of financial position and related disclosure notes, which consists of prepaid land costs with ownership, net of accumulated depreciation, for clearer presentation.

None of these developments have had a material effect on how the Group's results and financial position for the current or prior years have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Kidney medicines	1,062,452	928,360
Contrast medium	139,802	128,056
Orthopedics medicines	116,141	250,171
Dermatologic medicines	98,338	222,025
Hepatobiliary medicines	31,871	111,233
Gynaecology and paediatrics drugs	170,131	130,444
Others	109,521	73,684
	<u>1,728,256</u>	<u>1,843,973</u>

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:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Customer A	444,776	419,528
Customer B	179,506	33,676

As at 31 December 2019, 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, bills payable and lease liabilities 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 2019 and 2018 is set out below:

	Consun Pharmaceutical Segment		Yulin Pharmaceutical Segment		Total	
For the year ended 31 December	2019	2018	2019	2018	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Disaggregated by timing of revenue recognition						
Point in time	1,403,919	1,219,586	324,337	624,387	1,728,256	1,843,973
Reportable segment revenue						
Revenue from external customers	1,403,919	1,219,586	324,337	624,387	1,728,256	1,843,973
Reportable segment profit						
Gross profit	1,118,311	976,447	143,094	407,979	1,261,405	1,384,426
Interest income from bank deposits	13,381	5,997	3,370	5,319	16,751	11,316
Interest expense	21,070	16,887	2,321	5,575	23,391	22,462
Depreciation and amortisation for the year	22,961	20,515	50,154	51,002	73,115	71,517
Recognition/(Reversals) of impairment losses						
– trade receivables and other receivables	460	(2,149)	69,887	7,043	70,347	4,894
– goodwill	–	–	320,647	–	320,647	–
– intangible assets	–	–	5,489	–	5,489	–
Reportable segment assets	2,053,714	1,824,593	1,728,758	2,040,139	3,782,472	3,864,732
Reportable segment liabilities	720,520	791,408	643,380	369,114	1,363,900	1,160,522

(ii) Reconciliations of reportable segment profit

	2019 RMB'000	2018 RMB'000
Reportable segment gross profit derived from the Group's external customers	1,261,405	1,384,426
Other losses (note 3)	(1,526)	(2,194)
Distribution costs	(539,204)	(561,537)
Administrative expenses	(231,833)	(176,527)
Impairment loss on goodwill and intangible assets	(326,136)	–
Finance costs (note 4(a))	(29,043)	(27,469)
Consolidated profit before taxation	<u>133,663</u>	<u>616,699</u>

	2019 RMB'000	2018 RMB'000
Assets		
Reportable segment assets	3,782,472	3,864,732
Elimination of inter-segment receivables	<u>(120,328)</u>	<u>(2,796)</u>
	3,662,144	3,861,936
Deferred tax assets	<u>45,942</u>	<u>35,102</u>
Consolidated total assets	<u>3,708,086</u>	<u>3,897,038</u>

	2019 RMB'000	2018 RMB'000
Liabilities		
Reportable segment liabilities	1,363,900	1,160,522
Elimination of inter-segment payables	<u>(120,328)</u>	<u>(2,796)</u>
	1,243,572	1,157,726
Current taxation	69,461	99,492
Deferred tax liabilities	88,292	137,217
Unallocated head office and corporate liabilities	<u>–</u>	<u>5,591</u>
Consolidated total liabilities	<u>1,401,325</u>	<u>1,400,026</u>

(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 LOSSES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Government grants (i)		
– Unconditional subsidies	5,185	1,981
– Conditional subsidies	1,660	2,466
Net rental income from investment properties	483	1,049
Interest income	16,751	11,316
Loss on disposal of property, plant and equipment	(330)	(231)
Net exchange losses	(23,958)	(22,242)
Others	(1,317)	3,467
	<u>(1,526)</u>	<u>(2,194)</u>

(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 RMB5,185,000 (2018: RMB1,981,000) 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 2019 was RMB1,660,000 (2018: RMB2,466,000).

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Interest on bank loans	23,391	22,526
Finance charges on bank loans	5,652	4,943
	<u>29,043</u>	<u>27,469</u>

(b) Staff costs

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Salaries, wages, bonuses and benefits	273,697	269,636
Contributions to defined contribution retirement schemes	11,132	9,335
Equity settled share-based transactions:		
Share Option Scheme	19,920	8,490
	<u>304,749</u>	<u>287,461</u>

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**

		2019	2018
	Note	RMB’000	RMB’000
Depreciation and amortisation charge			
– investment property	8	549	676
– other property, plant and equipment	9	40,007	38,292
– land use rights (i)	10	3,139	3,134
– intangible assets	11	29,420	29,415
Auditor’s remuneration			
– audit services		2,100	2,100
– non-audit services		830	450
Impairment losses			
– trade receivables and other receivables (ii)		70,347	4,894
– goodwill	12	320,647	–
– intangible assets	11	5,489	–
Net unrealised losses on investment not held for trading		–	2,600
Leases charges		3,971	2,920
Research and development costs (iii)		75,377	67,937
Cost of inventories (iv)	14	466,851	459,547

- (i) The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the Group’s land use rights located in the PRC which were previously included in lease prepayments is also identified as a right-of-use asset and renamed as “land use rights”.
- (ii) During the year ended 31 December 2019, provision for doubtful debts of RMB70,347,000 (2018: RMB4,894,000) was recognised, among which RMB171,000 were debts subsequently collected that had been written off in previous year (2018: RMB5,000,000).
- (iii) During the year ended 31 December 2019, research and development costs included RMB23,084,000 (2018: RMB25,237,000) 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 2019, cost of inventories include RMB105,597,000 (2018: RMB81,576,000) 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:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Current tax		
Provision for PRC income tax for the year	103,843	130,068
PRC dividend withholding tax (iv)	34,936	–
Over-provision for PRC income tax in respect of prior years	(8,473)	(5,277)
	<u>130,306</u>	<u>124,791</u>
Deferred tax		
Origination and reversal of temporary differences	4,172	(5,583)
Effect on distribution of dividends (iv)	(34,936)	–
Effect on deferred tax balances at 1 January resulting from a change in tax rate (iv)	(29,001)	–
	<u>(59,765)</u>	<u>(5,583)</u>
	<u><u>70,541</u></u>	<u><u>119,208</u></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 year ended 31 December 2019 (2018: 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.

Guangxi Yulin Pharmaceutical Group Co., Ltd (“**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**”) and Guangxi Yulin Pharmaceutical Group Hongsheng Trading Co., Limited (“**Hongsheng Trading**”) met the criteria for preferential income tax rate granted to small and low profit-making enterprises in the PRC, and were entitled to the preferential income tax rate of 10% in 2019 (2018: 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 2019.

- (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. In 2019, the Company and its Hong Kong subsidiaries obtained the Certificate of Resident Status of the Hong Kong Special Administrative Region and has satisfied the “Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on income” and therefore has adopted the withholding tax rate at 5% for PRC withholding tax purposes for the calendar year 2017 and the two succeeding calendar years.

The directors have determined that in determining the amounts of dividends to be distributed from PRC subsidiaries to the Hong Kong incorporated subsidiary in future, the amounts of dividends declared or to be declared by the Company and the repayment schedule of loans and borrowings of the Company would be considered. As at 31 December 2019, deferred tax liabilities of RMB15,208,000 (31 December 2018: 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:

	2019 RMB'000	2018 <i>RMB'000</i>
Profit before taxation for the year	133,663	616,699
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	56,889	175,188
Effect of non-deductible expenses	8,467	21,565
Effect of non-deductible goodwill impairment	80,162	–
Effect of tax concessions	(55,774)	(72,268)
Effect of use of previous unrecognized deferred tax assets	(2,870)	–
Effect on deferred tax balances at 1 January resulting from a change in tax rate	(29,001)	–
Provision of withholding tax on undistributed profits retained by PRC subsidiaries	21,142	–
Over-provision in respect of prior years	(8,474)	(5,277)
Actual tax expenses	70,541	119,208

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 RMB79,820,000 (2018: RMB465,353,000) and the weighted average number of ordinary shares of 848,771,000 shares (2018: 854,841,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2019 '000 shares	2018 '000 shares
Issued ordinary shares at 1 January	875,191	873,610
Effect of shares repurchased and cancelled	(6,957)	–
Effect of share options exercised	235	929
Effect of treasury shares held under the Share Award Scheme	(19,698)	(19,698)
	<u>848,771</u>	<u>854,841</u>
Weighted average number of ordinary shares at 31 December	<u><u>848,771</u></u>	<u><u>854,841</u></u>

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2019 is based on the profit attributable to equity shareholders of the Company of RMB79,820,000 (2018: RMB465,353,000) and the weighted average number of ordinary shares of 854,473,000 shares (2018: 877,986,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2019 '000 shares	2018 '000 shares
Weighted average number of ordinary shares at 31 December	848,771	854,841
Dilutive effect of deemed issue of shares under the Share Option Scheme	<u>5,702</u>	<u>23,145</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><u>854,473</u></u>	<u><u>877,986</u></u>

7 DIVIDENDS

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Interim dividend declared and paid of HKD0.10 per ordinary share	75,640	–
Final dividend proposed after the end of the year of HKD0.10 per ordinary share (2018: HKD0.20)	74,689	146,288
	<u>150,329</u>	<u>146,288</u>

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year of HKD0.20 per ordinary share (2018: HKD0.10)	146,288	68,943
Less: Dividends for Buy-back Shares	(309)	–
	<u>145,979</u>	<u>68,943</u>

8 INVESTMENT PROPERTIES

	<i>RMB'000</i>
Cost	
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	18,890
Accumulated depreciation:	
At 1 January 2018	(1,014)
Charge for the year	(676)
At 31 December 2018 and 1 January 2019	(1,690)
Charge for the year	(549)
At 31 December 2019	(2,239)
Net book value:	
At 31 December 2019	16,651
At 31 December 2018	17,200

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.

As at 31 December 2019, included in investment properties, properties of RMB13,886,000 (31 December 2018: RMB13,886,000) were leased out under operating leases that would otherwise meet the definition of investment property, and properties of RMB5,004,000 (31 December 2018: 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 2019.

9 OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
At 1 January 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 and 1 January 2019	329,671	196,732	20,869	17,708	166,774	731,754
Transfer from construction in progress	687	1,940	24	242	(2,893)	–
Other additions	2,881	11,564	917	3,502	122,040	140,904
Disposals	(562)	(4,907)	–	(1,362)	–	(6,831)
At 31 December 2019	332,677	205,329	21,810	20,090	285,921	865,827
Accumulated depreciation:						
At 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 and 1 January 2019	(83,054)	(67,567)	(8,160)	(11,188)	–	(169,969)
Charge for the year	(17,462)	(18,477)	(1,907)	(2,161)	–	(40,007)
Written back on disposal	107	4,521	–	830	–	5,458
At 31 December 2019	(100,409)	(81,523)	(10,067)	(12,519)	–	(204,518)
Net book value:						
At 31 December 2019	232,268	123,806	11,743	7,571	285,921	661,309
At 31 December 2018	246,617	129,165	12,709	6,520	166,774	561,785

10 LAND USE RIGHTS

	<i>RMB'000</i> <i>(Note)</i>
Cost:	
At 1 January 2018	143,495
Additions	<u>—</u>
At 31 December 2018 and 1 January 2019	143,495
Additions	<u>304</u>
At 31 December 2019	----- 143,799
Accumulated depreciation:	
At 1 January 2018	(10,718)
Charge for the year	<u>(3,134)</u>
At 31 December 2018 and 1 January 2019	(13,852)
Charge for the year	<u>(3,139)</u>
At 31 December 2019	----- <u>(16,991)</u>
Net book value:	
At 31 December 2019	<u><u>126,808</u></u>
At 31 December 2018	<u><u>129,643</u></u>

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The depreciated carrying amount of the Group's land use rights located in the PRC which were previously included in lease prepayments is also identified as a right-of-use asset and renamed as "land use rights".

It represents prepayments for right-of-use assets of the land use right in the PRC paid to the PRC authorities, on which the Group's manufacturing plants were built. The Group was granted land use rights for a period of 50 years initially and the remaining periods range from 29 to 47 years.

(a) The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	31 December 2019	1 January 2019 (Note)
	<i>RMB'000</i>	<i>RMB'000</i>
Included in "Right-of-use assets":		
Land use rights, carried at depreciated cost	<u>126,808</u>	<u>129,643</u>

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

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	3,943	–
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	28	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	–	2,920

11 INTANGIBLE ASSETS

	Patents RMB'000	Trademark RMB'000	Total RMB'000
Cost:			
At 1 January 2018, 31 December 2018 and 1 January 2019	248,103	256,233	504,336
Additions	180	–	180
At 31 December 2019	248,283	256,233	504,516
	-----	-----	-----
Accumulated amortisation:			
At 1 January 2018	(44,121)	–	(44,121)
Charge for the year	(29,415)	–	(29,415)
	-----	-----	-----
At 31 December 2018 and 1 January 2019	(73,536)	–	(73,536)
Charge for the year	(29,420)	–	(29,420)
	-----	-----	-----
At 31 December 2019	(102,956)	–	(102,956)
	-----	-----	-----
Accumulated impairment losses:			
At 1 January 2018, 31 December 2018 and 1 January 2019	–	–	–
Charge for the year	–	(5,489)	(5,489)
	-----	-----	-----
At 31 December 2019	–	(5,489)	(5,489)
	-----	-----	-----
Net book value:			
At 31 December 2019	145,327	250,744	396,071
	=====	=====	=====
At 31 December 2018	174,567	256,233	430,800
	=====	=====	=====

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 RMB250,744,000 (2018: RMB256,233,000) is assessed to have indefinite useful lives when, based on an analysis of all of the relevant factors including beneficial pattern, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. The recoverable amount of the trademark that has indefinite useful life is estimated annually whether or not there is any indication of impairment. The amount is allocated to the Group’s cash-generating units of Yulin Pharmaceutical and its subsidiaries (collectively referred to as “**Yulin Pharmaceutical Group**”) (“**Yulin CGU**”).

The recoverable amount of the trademark that has indefinite useful life is determined based on value-in-use calculations by preparing cash flow projections of Yulin CGU derived from the most recent financial forecast approved by the management covering a five-year period. During 2019, impairment loss of trademark of RMB5,489,000 (2018: nil) had been recognised based on the recoverable amount calculations of Yulin CGU as disclosed in note 12.

12 GOODWILL

RMB'000

Cost:

At 1 January 2018, 31 December 2018 and 31 December 2019 320,647

Accumulated impairment losses:

At 1 January 2018, 31 December 2018 and 1 January 2019 —
 Impairment loss (320,647)

At 31 December 2019 (320,647)

Carrying amount:

At 31 December 2019 —

At 31 December 2018 320,647

Goodwill acquired through business combination is allocated to the Yulin CGU.

The recoverable amount of Yulin CGU is determined based on value-in-use calculations. These calculations apply the cash flow projections based on financial budgets approved by management covering a five-year period. The average budgeted sales growth rate of the five-year period is 19.0% (2018: 13.0%). Cash flows beyond the aforementioned financial forecasts period are extrapolated using estimated sales growth rate of 3% (2018: 3%), which was estimated on the basis of the long-term inflation rate in the PRC. It is a commonly used valuation assumption that the long-term growth rate of a company will converge with the long-term growth rate of the PRC. The cash flows are discounted using a discount rate of 16.3% (2018: 13.7%). The discount rates used are pre-tax and reflect specific risks relating to the Yulin CGU.

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

By end of 2019, as the results of the changes in marketing channel and intensified competition of the over-the-counter drug market in the PRC, the Group recognised impairment loss on goodwill of RMB320,647,000 (2018:nil) and intangible assets of RMB5,489,000 (2018:nil) based on the recoverable amount calculations of Yulin CGU. As at 31 December 2019, the recoverable amount of Yulin CGU calculated based on value in use amounted to RMB1,177,692,000, which exceeded its carrying amount by approximately RMB6,000,000.

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

Pre-tax discount rate increase to	16.7%
Average revenue growth rate decrease to	18.8%

13 OTHER PREPAYMENTS

	2019 RMB'000	2018 RMB'000
Prepayment for purchase of other property, plant and equipment	51,657	5,022
Prepayment for loan facility fees – non-current portion	—	684
	<u>51,657</u>	<u>5,706</u>

14 INVENTORIES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Raw materials	111,713	109,960
Work in progress	52,992	50,624
Finished goods	45,979	49,726
	<u>210,684</u>	<u>210,310</u>

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Cost of inventories sold	463,197	456,822
Write down of inventories	3,654	2,725
	<u>466,851</u>	<u>459,547</u>

15 TRADE AND OTHER RECEIVABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade debtors and bills receivables, net of loss allowance (a)	763,806	863,992
Other debtors, net of loss allowance (b)	28,439	20,279
	<u>792,245</u>	<u>884,271</u>
Financial assets measured at amortised cost	792,245	884,271
Prepayments	23,487	31,828
	<u>815,732</u>	<u>916,099</u>

(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:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Within 3 months	338,030	691,927
3 to 12 months	213,791	158,447
Over 12 months	211,985	13,618
	<u>763,806</u>	<u>863,992</u>

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

(b) **Other debtors**

As at 31 December 2019, the Group's other receivables of RMB656,000 (31 December 2018: RMB259,000) were determined to be impaired in full.

16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Cash at bank and on hand	<u>1,383,232</u>	<u>1,269,746</u>

17 TRADE AND OTHER PAYABLES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Trade payables (ii)	55,520	92,755
Contract liabilities	17,596	6,097
Refund liabilities	71,358	66,677
Accrued expenses	209,760	257,926
Employee benefits payable	154,837	188,242
Other payables	110,540	139,107
Project development deposits (i)	<u>52,000</u>	<u>—</u>
	<u>671,611</u>	<u>750,804</u>

- (i) In May 2019, the Group entered into a series of cooperative development agreements with Guangxi Huafa Real Estate Development., Ltd. (“**Guangxi Huafa**”) and Yulin City Shunlang Real Estate Investment Co., Ltd. (“**Yulin Shunlang**”) in relation to the development and reconstruction project of a plant site of Yulin Pharmaceutical. Pursuant to the agreements, Yulin Pharmaceutical had transferred the land use right of a plant site to its wholly owned subsidiary Guangxi Yulin Yunxiang Real Estate Co., Limited (“**Yunxiang Real Estate**”) during the year ended 31 December 2019. As of 31 December 2019, the Group had received project deposits and prepayment from Guangxi Huafa and Yulin Shunlang aggregated to RMB52,000,000. The project development was still in progress by end of 2019.

- (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:

	2019 RMB'000	2018 <i>RMB'000</i>
Within 1 month	26,328	45,355
1 to 12 months	28,845	44,318
Over 12 months	347	3,082
	<u>55,520</u>	<u>92,755</u>

18 LOANS AND BORROWINGS

At 31 December 2019, loans and borrowings were unsecured and repayable as follows:

	2019 RMB'000	2018 <i>RMB'000</i>
Within 1 year	553,567	147,202
After 1 year but within 2 years	<u>—</u>	<u>245,336</u>
	<u>553,567</u>	<u>392,538</u>

At 31 December 2019, total banking facilities of the Group amounted to RMB742,488,000 (2018: RMB392,538,000), which were utilised to the extent of RMB553,567,000 (2018: RMB392,538,000).

As at 31 December 2019, certain banking facilities of the Group amounted to RMB279,160,000 (31 December 2018: RMB392,538,000) 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 2019, none of the covenants relating to drawn down loans had been breached (31 December 2018: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

I. Industrial and Business

In 2019, amidst the ever-changing global situations, notably tensions between China and the United States and complicated and changing external environment, coupled with increasingly stringent medical insurance cost control in China, the pharmaceutical industry has undergone substantial changes in development trend and competition landscape. For pharmaceutical industry, 2019 is a year of both challenges and opportunities. Challenges were emerged from, among others, the government's continuous efforts in standardization and consolidation of pharmaceutical industry such as further deepening and expansion of centralized drug procurement program, the implementation of "No Chinese medicine prescription by Western medicine practitioners (西醫不可開中藥)" policy and the promulgation and implementation of the Pharmaceutical Administration Law (《藥品管理法》) (new version). Opportunities were originated from the publication of the National Medical Insurance Drug Catalogue (《國家醫保目錄》) (new version). A total of 70 products of Consun Pharmaceutical have been admitted to the Catalogue, including a number of major products such as Uremic Clearance Granule (尿毒清顆粒), Kidney Repair and Edema Alleviation Granules (益腎化濕顆粒), Gadopentetic Acid Dimeglumine Salt Injection (鈆噴酸葡胺注射液), Iron-dextrin Oral Solution (右旋糖酐鐵口服液) and Cetirizine Hydrochloride Oral Solution (鹽酸西替利嗪口服溶液), which has laid a solid foundation for further business development.

In 2019, the Group recorded a revenue of approximately RMB1.73 billion, representing a decrease of approximately 6.3% over the same period last year. The Company recorded a profit attributable to its equity shareholders of approximately RMB79.82 million, representing a decrease of approximately 82.8% over the same period last year. If excluding the impairment of non-cash goodwill and intangible assets of approximately RMB326 million (the portion attributable to equity shareholders of the Company: RMB324 million), the adjusted profit attributable to equity shareholders of the Company would decrease by approximately 13.2% as compared with the year ended 31 December 2018.

In terms of business segments, sales revenue of Consun Pharmaceutical Segment amounted to approximately RMB1.4 billion, representing a year-on-year increase of approximately 15.1%, maintaining a steady growth momentum with Hebei becoming the third province with revenue reaching RMB100 million.

In particular, the sales revenue of the kidney product series in 2019 amounted to approximately RMB1.06 billion, representing a year-on-year increase of approximately 14.4%. Uremic Clearance Granule, the Group's flagship product admitted to Class A of the National Medical Insurance Drug Catalogue (《國家醫保目錄》) (new version), has been improving steadily with market coverage and market share on a growing trend in general, indicating that the Group's strategies and tactics for the kidney product series align with the needs under the current competition landscape.

In order to further promote Uremic Clearance Granule, our "major traditional Chinese medicine product", the Group has been pushing forward the works in aspects such as product planning, academic studies, promotion and marketing capacity enhancement in an orderly manner.

The sales revenue of the imaging product series in 2019 amounted to approximately RMB140 million, representing a year-on-year increase of approximately 9.2%, maintaining Consun Pharmaceutical's market position in the field of contrast medium for magnetic resonance imaging. Even more encouragingly, the Group has sped up the planning for the imaging product series in 2019, among which, Iopamidol Injection was granted the drug registration approval and is expected to promptly become a new driver for the Group's profit growth. Currently, the Group is making an all-out effort to expedite the launch of Iopamidol Injection in the market.

The maternal and children product series, despite the fact that currently only accounted for a relatively small proportion of the total sales volumes, continued to contribute to the rapid development of the Group and is expected to promptly become our key products, thereby making more contributions to the Group as a whole.

In 2019, the coordinated production line for washing, drying, filling and pressing at the oral solution workshop in Inner Mongolia Base was officially put into operation and increased our production capacity by 57%, which will be able to meet the increasing market demand for Iron-dextrin Oral Solution, Erythromycin Estolate Suspension and Cetirizine Hydrochloride Oral Solution in the next two years. An automatic production line was introduced in the Guangzhou Base and our production capacity has expanded from the original 200 tonnes per year to 600 tonnes per year.

The operation of Yulin Pharmaceutical Segment, however, showed a mixed performance with certain business difficulties, while the industrial relocation from city to industrial park advanced in an orderly manner.

Yulin Pharmaceutical recorded a sales revenue of approximately RMB324 million in 2019, representing a year-on-year decrease of approximately 48.1%. Nevertheless, the segment realised further concentration of effective sales and Guangdong has become the first province with revenue reaching RMB100 million under the Yulin Pharmaceutical Segment. After three consecutive years of rapid growth in 2016, 2017 and 2018, Yulin Pharmaceutical Segment encountered changes and intensified competition in the over-the-counter drug market and in order to adapt to these changes, the Group carried out comprehensive reform and rectification for the marketing sector by standardizing the price systems, and organizing and optimizing the marketing channels. Such measures ranged from the rebuilding of overall top-level design to reshaping of structures, from personnel adjustment to market adjustment, and from product classification adjustment to system and procedure optimization. Through these rectifications and adjustments, market order in terms of channel, terminal and price level has been gradually restored, and the initial effect of the market adjustment has been seen in 2020.

In May 2019, the Company announced that Yulin Pharmaceutical and Yunxiang Real Estate signed the cooperative development agreement with Guangxi Huafa and Yulin Shunlang which enabled the cooperative development of the old plant site to enter the stage of actual operation. As at the date of this announcement, various works such as planning proposal and land transfer are well underway.

On the other hand, the construction of new plant for the purpose of Yulin Pharmaceutical's relocation to the industrial park has been making satisfactory progress in general. The installation of drainage, electric and fire resistance appliances for the exterior and interior of buildings designated for production, storage and quality inspection have been completed. All civil and fire resistance engineering are expected to be completed in the first half of 2020 with an aim to be officially put into operation as soon as possible. Meanwhile, the optimization of production, marketing and terminals has been carried out simultaneously.

II. R&D and Innovation – Adjusting the Development Plan for the Next Ten Years by Adhering to the “1+6” Product Structure with an Aim to Recruit Talents, Strengthen its Team and Sharpen its Business Focus.

Following the conference of launching the new Iopamidol Injection product, namely “KangleXian (康樂顯)” held in Beijing on 15 November 2019, Consun Pharmaceutical officially entered into the field of CT contrast medium, which marked a major breakthrough of the Group's R&D strengths. Subsequently, the Group will still devote greater efforts in recruiting talents and strengthening its team by engaging outstanding academic leaders, at the same time further adjusting and clarifying its innovative strategic ideas, thereby enhancing its innovation and management capability in terms of research and development.

The Group will continue to adjust and optimize its R&D strategies actively and fully utilize 38 patents and various R&D platforms, such as two “Academician Expert Workstations (院士專家工作站)”, one “Postdoctoral Scientific Research Workstation (博士後科研工作站)”, two provincial “Engineering Technical Research Centers (工程技術研究中心)”, three provincial “Enterprise Technical R&D Centers (企業技術研發中心)” and “Consun Chinese Medicine Research Center for Renal Diseases (康臣腎病中藥研究中心)” jointly established with Hong Kong Baptist University. Furthermore, the Group has adhered to the development pathway of “To excel oneself by following at the beginning with equal emphasis on imitation and innovation (先跟隨後趕超，仿制與創新並舉)”, aiming to achieve breakthroughs in three sectors of Chinese medicine, chemical medicine and biological medicine. The ultrasound micro-bubble contrast medium, namely “Huashengxian (華聲顯)” will commence clinical trial upon the completion of trial production. Regarding the Chinese medicine sector, the Group will carry out the secondary development on the basis of quality products under famous brands while developing new medicine. For the chemical medicine sector, instead of sole imitation, the Group will pursue the integration of imitation and innovation, with a goal to achieve proprietary innovation ultimately. In respect of biological medicine sector, the Group will insist on proprietary innovation. As at the date of this announcement, the Group has 11 established projects under research.

III. Leveraging the Continuous Efforts of its Operation Team, the Group is Capable to Create High Return for its Investors and Build Up Momentum for Future Growth.

Affected by the international political situation and economic environment, the net profit of the Group in 2019 is lower than that of the previous years with a disappointing performance of the Company's share price in the Hong Kong capital market. Nevertheless, the Group has still maintained a sound financial condition with healthy cash flows, which enabled the management to insist on offering high dividend return to investors. In order to recognize the full support of all shareholders, the Board of the Company proposed to distribute a final dividend of HKD0.1 per share for the year end 31 December 2019, amounting to a dividend of HKD0.2 per share for the year.

In addition, according to the announcement published by the Company in September 2019, the Company planned to repurchase up to 45,000,000 shares before the next annual general meeting. As of 31 December 2019, the Company has repurchased 405,000 shares. From 1 January 2020 and up to now, the Company has repurchased 17,782,000 shares. Hence, the Company has repurchased an aggregate of 18,187,000 shares in total, accounting for approximately 2.10% of the issued shares of the Company as at the date of this announcement. Looking forward, the Company will continue to enhance the net asset value per share of the Shareholders by way of repurchase of shares on a continuous basis.

IV. The Group Received Numerous Awards and Ms. LI Qian, its Vice Chairlady and Chief Executive Officer, was Honoured as One of the “2019 China Economic Top 10 Commercial Mulan (中國經濟十大商業木蘭)”.

Ms. LI Qian, the vice chairlady and chief executive officer of the Group, was honoured as one of the “China Economic Top 10 Commercial Mulan (中國經濟十大商業木蘭)” in the “2019 China Economic Person of the Year (中國經濟年度人物)”, who is one of the few entrepreneurs honoured with this award in the pharmaceutical and healthcare industry. Prior to that, Ms. LI Qian was accredited as “Top 10 New Talent in China Pharmaceutical Industry (中國醫藥行業10大新銳人物)”, “Outstanding Person in Cultural Establishment of Chinese Private Enterprises (中國民營企業文化建設突出貢獻人物)” and “Socially Responsible Pioneer Entrepreneur (社會責任先鋒企業家)” successively.

In 2019, riding on its growth momentum, Consun Pharmaceutical continued to develop steadily and received numerous awards. In particular, the Group was awarded “2018 Top 100 Pharmaceutical Industrial Enterprises of China (2018年度中國醫藥工業百強企業)” in June, ranked 30th on the “TOP 100 China’s Chinese Medicine Enterprises List (中國中藥企業TOP100排行榜)” in July and recognised as the “Excellent Enterprise for Cultural Establishment of Chinese Private Enterprises (中國民營企業文化建設優秀單位)” in August. Consun Pharmaceutical and Yulin Pharmaceutical were listed on “2018 China’s Top 100 Pharmaceutical Enterprises (2018年度中華民族醫藥百強品牌企業)” in September. In addition, the Group was awarded the title of “The 70th Anniversary of the Founding of the PRC -Benchmarking Enterprise in Pharmaceutical Industry (新中國成立70周年醫藥產業標杆企業)” in October and “2019 Social Responsibility and Charity Practice Award (2019年度社會責任公益實踐獎)” in November.

In 2019, Uremic Clearance Granule (尿毒清顆粒) was included in the “List of Healthy China’s Brands (健康中國·品牌榜)” for the fourth consecutive year, while the Shiduqing Capsule (濕毒清膠囊) was included in the retail terminal list of “List of China’s Pharmaceutical Brands (中國醫藥·品牌榜)” for the first time.

In 2019, Consun Pharmaceutical was successively awarded “Most Valuable Pharmaceutical and Medical Stock Company (最具價值醫藥及醫療股公司)” in Golden Hong Kong Stocks Awards and “Most Valuable Investment Award (最具投資價值獎)” and “The Best Corporate Governance Award (最佳企業管治獎)” at the China Financial Market Awards.

V. Material Financial Treatment

In light of the fact that the sales revenue of the Yulin Pharmaceutical Segment in FY2019 decreased by approximately 48% as compared with FY2018 and taking into account the projection of future cash flows of the Yulin Pharmaceutical Segment, the Group has recognised full impairment in respect of the goodwill (with book value of approximately RMB320 million) related to the Yulin Pharmaceutical Segment in its consolidated financial statements for FY2019. It should be noted that the impairment of goodwill is a non-cash item and will not cause any impact on the Group's cash flows from operating activities.

VI. Future Development

Despite the increasing uncertainties in the general economic environment due to the COVID-19 pandemic at the beginning of 2020, the Group will continue to adhere to its approach of “based on specialties and complemented by generics” and adjust its operational strategies flexibly, striving to develop its “1+6” product structure. The Group will continue to push forward the vertical development of nephrology and imaging businesses, at the same time accelerating the expansion of gynaecology and paediatrics, orthopedics, dermatology, hepatobiliary and gastroenterology businesses, so as to develop a top class Chinese medicine enterprise with multiple leading specialties and full range of treatment capability.

In 2020, the Group will gather scientific research projects from medical researchers specialising in kidney disease-related field worldwide. After preliminary review and secondary review, the Group is currently planning to provide subsidies for 24 appropriate projects in order to encourage medical researchers to carry out clinical trial and fundamental research in relation to Kidney Repair and Edema Alleviation Granules in an innovative manner and analyse the therapeutic effect and mechanism of action on kidney repair and edema alleviation, hence promoting the development of scientific research of kidney disease and the progress of chronic kidney disease prevention.

The Group will also commence the clinical research project of treating anaphylactic purpura nephritis in children and diabetic kidney disease with kidney repair and edema alleviation treatment.

On the other hand, the Group is estimated that the trial production of “Huashengxian (華聲顯)”, an ultrasound micro-bubble contrast medium, will be completed in 2020 and will apply for the commencement of clinical study. With the confirmation of the project of “Joint Laboratory of Ultrasound Micro-Bubble Diagnosis and Treatment Integration” jointly established with Shenzhen Institutes of Advanced Technology, Chinese Academy of Sciences, the Group will be committed to develop the world's leading new medicine with the drug-eluting micro-bubble technology.

Moreover, as a result of the outbreak of COVID-19 pandemic at the beginning of 2020, there has been rising awareness of self-protection of citizens nationwide and strong emphasis has been placed on the protection through pharmaceutical products on the national level, which is beneficial to the development of pharmaceutical companies and thus conducive to the improvement of the operation environment of pharmaceutical companies as a whole. Furthermore, the government particularly highlighted the great emphasis placed on Chinese medicine and proposed to battle against the epidemic through the development of Chinese medicine. Although the Company does not have any products for direct treatment of COVID-19, we offered products such as Zhenhuang Capsule (珍黃膠囊), Yinqiao Detoxification Tablets (銀蒲解毒片) and Yunxiang Jing (雲香精) for treatment of respiratory diseases, hence we maintained an optimistic outlook for both the Chinese medicine market and Chinese medicine companies in the future.

FINANCIAL REVIEW

Revenue

For the year of 2019, the Group's revenue was RMB1,728,256,000, representing a decrease of approximately 6.3% as compared with RMB1,843,973,000 for 2018. Categorized by product lines, sales of kidney medicines recorded an increase of approximately 14.4% 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 9.2% as compared with last year, maintained a leading position in the domestic medical contrast medium market for magnetic resonance imaging; sales of orthopaedics medicines recorded a decrease of approximately 53.6%; sales of dermatologic medicines recorded a decrease of approximately 55.7%; sales of hepatobiliary medicines recorded a decrease of approximately 71.3%; sales of the Group's gynaecology and paediatrics drugs recorded an increase of approximately 30.4%; and sales of other pharmaceutical products recorded an increase of approximately 48.6%. The decrease in overall sales revenue was mainly due to the decrease in sales revenue of Yulin Pharmaceutical Segment.

Gross Profit and Gross Profit Margin

For the year of 2019, the Group's gross profit was RMB1,261,405,000, representing a decrease of approximately 8.9% as compared with RMB1,384,426,000 for 2018. The decrease in gross profit was mainly attributable to the decrease in sales. For the year of 2019, the Group's average gross profit margin was approximately 73.0%, representing a decrease of 2.1% as compared with the 75.1% for last year, which was mainly attributable to increases in raw material prices, decrease in sales of Yulin Pharmaceutical Segment and changes in product composition.

Other Losses

For the year of 2019, the Group's other losses were RMB1,526,000, which mainly included government grants, interest income and net exchange loss. Compared with the other losses of RMB2,194,000 for 2018, the decrease was mainly attributable to the increase in government grants and interest income.

Distribution Costs

For the year of 2019, the Group's distribution costs was RMB539,204,000, representing a decrease of approximately 4.0% as compared with RMB561,537,000 for 2018. The decrease in distribution costs was mainly attributable to decrease in sales revenue.

Administrative Expenses

For the year of 2019, the Group's administrative expenses were RMB231,833,000, representing an increase of approximately 31.3% as compared with RMB176,527,000 for 2018. The increase in administrative expenses was mainly attributable to the impairment losses of trade receivables and the share-based payment cost recognised for the fair value of share options granted to management staff during the year.

Impairment loss on goodwill and intangible assets

In 2019, the Group has recognised full impairment loss in respect of the goodwill (with book value of approximately RMB321 million) and partial impairment loss of approximately RMB5 million in respect of trademark under intangible assets related to the Yulin Pharmaceutical Segment as a result of the decrease in sales revenue of the Yulin Pharmaceutical Segment in 2019 as mentioned in the section of Business Overview above.

Finance Costs

For the year of 2019, finance costs were RMB29,043,000, representing an increase of approximately 5.7% as compared with RMB27,469,000 for 2018, which was mainly attributable to increases in borrowing interest rates during the year.

Income Tax

For the year of 2019, the Group's income tax expense was RMB70,541,000, representing a decrease of approximately 40.8% as compared with RMB119,208,000 for 2018. The effective tax rate (income tax expense divided by profit before taxation) increased by approximately 33.5% from 19.3% for 2018 to 52.8% for 2019. After adjusting the effect from goodwill impairment, the effective tax rate is 15.5%. The decrease was mainly due to the decrease in provision for withholding tax as a result of the Group's entitlement to 5% dividend withholding tax preferential policy during the year.

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

For the year of 2019, the Group's annual profit was RMB79,820,000, representing a decrease of approximately 82.8% as compared with RMB465,353,000 for 2018. The basic earnings per share decreased by approximately 82.7% from RMB0.5444 for 2018 to RMB0.0940 for 2019, and the diluted earnings per share decreased by approximately 82.4% from RMB0.5300 for 2018 to RMB0.0934 for 2019.

LIQUIDITY AND FINANCIAL RESOURCES

Trade Debtors and Bills Receivable

As at 31 December 2019, the balance of trade debtors and bills receivable was RMB763,806,000, representing a decrease of approximately 11.6% as compared with the balance of RMB863,992,000 as at 31 December 2018. Trade receivables turnover days for 2019 were 171.9 days, decreased by 9.6 days from 181.5 days for 2018.

Inventories

As at 31 December 2019, the balance of inventories was RMB210,684,000, representing an increase of approximately 0.2% as compared with the balance of RMB210,310,000 as at 31 December 2018. Inventory turnover days for 2019 were 165.0 days, increased by 2.0 days from 163.0 days for 2018.

Trade Payables

As at 31 December 2019, the balance of trade payables was RMB55,520,000, representing a decrease of approximately 40.1% as compared with the balance of RMB92,755,000 as of 31 December 2018. Trade payables turnover days for 2019 were 58.0 days, decreased by 6.1 days from 64.1 days for 2018, which was mainly due to the acceleration in processing trade payable.

Cash Flows

For the year of 2019, the Group's net cash generated from operating activities was RMB383,315,000, representing a decrease of approximately 49.2% as compared with RMB754,210,000 for 2018, which was mainly attributable to the Group's grant of longer credit period to certain strategic customers with good credit standing based on the market situation, the acceleration in processing trade payable and the payment of dividend withholding tax during the year. For the year of 2019, the Group's net cash used in investing activities was RMB110,132,000, representing a decrease of approximately 39.1% as compared with RMB180,804,000 for 2018, which was mainly due to the slight decrease in expenditure for acquisition of plant and equipment and the slight increase in interest income. For the year of 2019, the Group's net cash used in financing activities was RMB156,662,000, representing a decrease of approximately 46.4% as compared with the net cash used in financing activities of RMB292,425,000 for 2018, which was mainly due to the increase in bank loans during the year.

Cash and Bank Balances and Borrowings

As at 31 December 2019, the Group's cash and bank balances were RMB1,383,232,000, representing an increase of approximately 8.9% as compared with RMB1,269,746,000 as at 31 December 2018. As at 31 December 2019, the Group's total loans and borrowings amounted to RMB553,567,000, representing an increase of approximately 41.0% as compared with RMB392,538,000 as at 31 December 2018, which mainly due to the increase in bank loans during the year.

TREASURY POLICIES

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the year of 2019. 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 2019 was 27.8% (31 December 2018: 18.2%). The increase in gearing ratio was mainly due to the increase in 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 2019, the Company issued a total of 693,200 ordinary shares pursuant to employees' exercise of share options granted under the Share Option Scheme (adopted on 2 December 2013).

In 2019, the Company repurchased 10,352,000 shares of its own ordinary shares through the Stock Exchange at a total consideration of approximately HKD52,908,000 (approximately RMB46,212,000) and all of these repurchased shares were cancelled before the year end.

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 2019.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had capital commitments of approximately RMB463,879,000 (31 December 2018: RMB494,328,000).

INFORMATION ON EMPLOYEES

As at 31 December 2019, the Group hired a total of 2,662 employees (31 December 2018: 2,667 employees). The total staff costs (including the directors' remuneration) for the year ended 31 December 2019 was RMB304,749,000 (2018: RMB287,461,000). 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 2019, the Group did not hold any significant investment in equity interest in any other company.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have any material acquisitions and disposals of subsidiaries and associated companies during 2019.

PLEDGE OF ASSETS

As at 31 December 2019, the Group did not have any pledged assets (31 December 2018: Nil).

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities (31 December 2018: 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 2019, there was no incidence of significant non-compliance of laws and regulations that is relevant to the Group's operations.

CHANGES IN INDUSTRIAL POLICIES AND THEIR EFFECT

I. Effect on the restriction policy on key drug catalogue under supervision and control and prescriptions for Traditional Chinese Medicine

On 1 July 2019, National Health Commission published the Circular on Publishing the Catalogue of the First Batch of Key Drugs for Rational Use under National Supervision and Control (Chemical Drugs and Biological Products) (關於印發第一批國家重點監控合理用藥藥品目錄(化藥及生物製品)的通知) (Guo Wei Ban Yi Ban No. 2019558) comprising a total of 20 products. The Circular also specifies the prescription restriction policy of Traditional Chinese Medicine, i.e. doctors that do not fall into the category of Traditional Chinese Medicine should obtain specific qualifications and meet relevant standards before issuing prescriptions for Chinese medicine and Chinese medicinal decoction pieces. On 20 January 2020, the Health Commission of Guangdong Province and the Administrative Bureau of Traditional Chinese Medicine of Guangdong Province jointly published Supplemental Circular on “Forwarding Circular on Publishing the Catalogue of the First Batch of Key Drugs for Rational Use under National Supervision and Control (Chemical Drugs and Biological Products)” (關於對“轉發關於印發第一批國家重點監控合理用藥藥品目錄(化藥及生物製品)的通知”) (“**Yue Wei Yao Zheng Han No. 20201**”), which has confirmed the relaxation of the restriction on certain local primary medical institutions for Western medicine to issue prescriptions for Traditional Chinese Medicine. For example, general practitioners and village doctors from local primary medical institutions can issue common prescriptions for Chinese medicine regarding common diseases and frequently-occurring diseases and can also continue to use long-term prescription for Chinese medicine and Chinese medicinal decoction pieces issued by Traditional Chinese Medicine doctors.

Although the relevant policies have limited the sales of Chinese medicine, as major products currently sold by the Group such as Uremic Clearance Granules have not been included in the catalogue for key drugs under supervision and control of all levels of provincial medical institutions and the major product of Uremic Clearance Granules is a type of Chinese medicine that has completed evidence-based medicine based on Western medicine system, this kind of Chinese medicine is not included in the restriction list in several provinces. And after the Yue Wei Yao Zheng Han No. 20201 is published internally in medical institutions of Guangdong Province, Grade II and Grade III hospitals in Guangdong Province such as Guangdong General Hospital successively started to grant permission to issue prescriptions for Chinese medicine. Therefore, it is expected that the effect of relevant policies on the overall sales of the Group will reduce gradually.

II. Adjustments to the National Medical Insurance Drug Catalogue

On 20 August 2019, the National Healthcare Security Administration and the Ministry of Human Resources and Social Security of China published the new version of the “National Catalogue for Medical Insurance Drugs, Work-related Injury Insurance Drugs and Maternity Insurance Drugs (《國家基本醫療保險、工傷保險和生育保險藥品目錄》)” (the “**National Medical Insurance Drug Catalogue**”), which was officially implemented since 1 January 2020 as the standard for payment of drug fees for medical insurance, insurance for work-related injuries and maternity insurance fund. The Group has a total of 70 products enlisted in the National Medical Insurance Drug Catalogue, and a number of products, including Uremic Clearance Granules and Gadopentetic Acid Dimeglumine Salt Injection, continued to remain enlisted in the National Medical Insurance Drug Catalogue. Iopamidol Injection is a new product of the Group, which remained Class A of the National Medical Insurance Drug Catalogue. Moreover, the Group’s Yin-nourishing and Lung-cooling Cream (養陰清肺膏) was upgraded from Class B to Class A (i.e. entitled for full reimbursement) of the National Medical Insurance Drug Catalogue, while three products, namely Kidney Repair and Edema Alleviation Granules, the Iron-Dextran Oral Solution and the Cetirizine Hydrochloride Oral Solution, have been enlisted in the National Medical Insurance Drug Catalogue for the first time, which can be partly reimbursed in various provincial medical institutions subject to a specific reimbursement proportion determined by the provincial healthcare security administration based on the local medical insurance fund. The Group believes that the changes of the drugs in the National Medical Insurance Drug Catalogue mentioned above will be beneficial for the sales of such products in the long term.

III. New Drug Administration Law

The New Drug Administration Law has been effective since 1 December 2019. The principal changes of the New Drug Administration Law as compared with the previous version are: firstly, the research, innovation and production of new medicines are encouraged. For instance, the law encourages the approval of drugs with conditions, and sets up prioritized evaluation and approval channels for drugs in respect of children and rare diseases, so as to accelerate the launch of new drugs. Secondly, more efforts have been made to enhance the quality and safety systems for pharmaceutical products. Thirdly, the limitation for sales of prescription drugs online has been loosened. Fourthly, severe punishments will be imposed for illegal activities with a significant increase in the effort of enforcement of penalty for illegal acts. The system for civil compensation liabilities has also been improved, including requiring the agents of the holders of overseas drug marketing authorizations within China to assume joint liabilities with the holders. The New Drug Administration Law also specifically proposed the cancellation of the Good Manufacturing Practice (GMP) for Drugs certification and the Good Supply Practice (GSP) for Pharmaceutical Products certification, demanding the management requirements in respect of the certifications to be incorporated into the daily production and operation management of the enterprises, and to be available for inspection

by the drug administrative departments at any time. The Group will continue to put great efforts in improving and enhancing the daily supervision over its production bases to ensure the quality and safety of its pharmaceutical products.

In general, the implementation of the New Drug Administration Law will encourage the Group to increase the efforts in research and development of innovative medicines (including chemical drugs, Chinese medicines and biological drugs). There will also be requirement for more professional research and development teams with more stringent, transparent, scientific management requirements on research and development. Higher standards of quality control over the research and development process will also be implemented. Accordingly, the standards for venues and equipment of research and development will be upgraded to satisfy the requirements for truthful, regulated, scientific and traceable work in relation thereto. As such, it is expected that the research and development cost for new medicines and generic drugs will increase.

IV. Quantity Procurement Policy of the Government

On 14 November 2018, the Pilot Program for Nationally Organized Centralized Pharmaceutical Procurements (國家組織藥品集中採購試點方案) was passed and it was determined that the centralized pharmaceutical quantity procurement policy (the “**Centralized Pharmaceutical Procurement**”) will be implemented in the public medical institutions of eleven “4+7” pilot cities, namely Beijing, Tianjin, Shanghai, Chongqing, Shenyang, Dalian, Xiamen, Guangzhou, Shenzhen, Chengdu and Xi’an, by way of cross-region alliances, under which the principle of “quantity-price linked, volume-for-price” will be adopted. The office of pilot working group has been established in the National Healthcare Security Administration, and a joint procurement office has been formed to carry out the quantity procurement. In September 2019, Centralized Pharmaceutical Procurement was promoted nationwide and the joint procurement office published the Documents on Centralized Pharmaceutical Procurement in the Regions Covered by the Alliance (聯盟地區藥品集中採購文件). The alliance covers 25 provinces and regions (excluding the 4+7 cities). After the Centralized Pharmaceutical Procurement has been promoted nationwide, the Shanghai Joint Pharmaceutical Procurement Office released the Proposed Selection Results Arising from Pilot Nationwide Promotion for Nationally Organized Centralized Pharmaceuticals Procurements and Utilization (國家組織藥品集中採購和使用試點全國擴圍產生擬中選結果). Compared with the lowest procurement price in the regions covered by the alliance in 2018, the price decreased by 59% on average. In December 2019, the second batch of nationally organized Centralized Pharmaceutical Procurement was launched on a nationwide basis with 33 types of products involved. In January 2020, the proposed selection results of the second batch of national centralized procurements were released. Compared with the lowest procurement price in the alliance in 2018, the price of the proposed products selected

decreased by 53% on average with a highest decrease of 93%. All of the drugs selected for nationally organized centralized procurement were generic drugs/non-exclusive products, and were mainly Western medicines.

The main products currently sold by the Group do not fall within the scope of the Centralized Pharmaceutical Procurement. Moreover, the targeted products of the government's quantity procurement in the next three years will mainly be generic drugs with at least over three suppliers passing the consistency evaluation. Furthermore, taking into account the rich product portfolio, the fact that "Uremic Clearance Granules", the product accounting for the largest proportion of the portfolio, is an irreplaceable exclusive Chinese medicine and the unique status of our various products in the market, it is expected that the effect of the Centralized Pharmaceutical Procurement on the Group's operation, profitability or market competition faced will be minimal.

EVENTS AFTER THE REPORTING PERIOD

During the period from 10 January 2020 to 21 February 2020, the Company repurchased 17,782,000 shares of its own ordinary shares through the Stock Exchange at a total consideration of approximately HKD71,419,000 (approximately RMB63,828,000). The shares repurchased by the Company will be cancelled in due course.

The COVID-19 outbreak since early 2020 has brought about additional uncertainties in the Group's operating environment and has temporarily delayed resumption of factory production after the Chinese New Year holiday according to the regulations of the local government for around two weeks.

The Group has been closely monitoring the impact on the Group's business development and has put in place contingency measures. These contingency measures include: increasing our options for logistics transportations; assessing our suppliers' readiness and liaising with higher-risk suppliers; negotiating with customers on delivery timetable. The Group will keep our contingency measures under review as the situation evolves.

As far as the Group's businesses are concerned, the pandemic brought negative impact to the Group's operations in a short-term within a controllable range. These estimated impacts have not been reflected in the financial information as of 31 December 2019. The actual impacts may differ from these estimates as situation continues to evolve and further information may become available.

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 2019, the Company issued a total of 693,200 ordinary shares at the consideration of HKD4.01 per share pursuant to employees' exercise of share options granted under Share Option Scheme (adopted on 2 December 2013).

In 2019, the Company repurchased 10,352,000 shares of its own ordinary shares through the Stock Exchange at a total consideration of approximately HKD52,908,000 (approximately RMB46,212,000) and all of these repurchased shares were cancelled before the year end.

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 2019.

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 2019.

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 2019.

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. CHEN Yujun (Chairlady), Mr. FENG Zhongshi and Mr. SU Yuanfu. The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters. The Audit Committee also met with the external auditors and reviewed the Annual Results.

Scope of work of KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2019 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, 29 May 2020. Shareholders should refer to details regarding the annual general meeting in the circular of the Company to be issued in due course and the notice of the annual general meeting and form of proxy accompanying thereto.

Dividends

The Company paid an interim dividend of HKD0.10 per share in 2019, totally approximately RMB75,640,000 (2018 interim dividend: Nil). The Board proposed to declare a final dividend of HKD0.10 per share, totally approximately RMB74,689,000 for the year ended 31 December 2019 (2018 final dividend: HKD0.20 per share, totally approximately RMB146,288,000). The proposed final dividend is subject to approval by the shareholders of the Company at the annual general meeting to be held on Friday, 29 May 2020 and, if approved, is expected to be paid on or about Friday, 19 June 2020 to shareholders whose names appear on the register of members of the Company on Friday, 12 June 2020. 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, 29 May 2020, the Company's register of members will be closed from Tuesday, 26 May 2020 to Friday, 29 May 2020 (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, 25 May 2020.

In addition, to determine shareholders' entitlement to the final dividend, the Company's register of members will be closed from Tuesday, 9 June 2020 to Friday, 12 June 2020 (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, 8 June 2020.

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 2019 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, 23 March 2020

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. CHEN Yujun as independent non-executive Directors.