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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2021 amounted to RMB886,526,000, representing an increase of approximately 15.8% as compared with the six months ended 30 June 2020.
- Profit attributable to equity shareholders of the Company for the six months ended 30 June 2021 amounted to RMB250,644,000, representing an increase of approximately 20.0% as compared with the six months ended 30 June 2020.
- Basic and diluted earnings per share for the six months ended 30 June 2021 amounted to approximately RMB0.3132 and RMB0.3117 respectively, representing an increase of approximately 23.9% and 23.3% respectively as compared with the six months ended 30 June 2020.
- The Board has declared an interim dividend of HKD0.1 per share for the six months ended 30 June 2021.

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Consun Pharmaceutical Group Limited (the “**Company**”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively the “**Group**”, “**Consun**” or “**Consun Pharmaceutical**”) for the six months ended 30 June 2021 (the “**Interim Results**”). The audit committee of the Company (the “**Audit Committee**”) and the Group’s external auditor have reviewed the Interim Results.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2021 – unaudited
(Expressed in Renminbi)

		For the six months ended 30 June	
	<i>Note</i>	2021	2020
		RMB'000	RMB'000
Revenue	3 & 4	886,526	765,856
Cost of sales		<u>(225,286)</u>	<u>(194,266)</u>
Gross profit		661,240	571,590
Other income	5	29,758	12,161
Distribution costs		(276,814)	(224,042)
Administrative expenses		(102,598)	(87,790)
Impairment loss on trade receivables and contract assets		<u>1,346</u>	<u>(14,509)</u>
Profit from operation		312,932	257,410
Finance costs	6(a)	<u>(5,241)</u>	<u>(11,493)</u>
Profit before taxation	6	307,691	245,917
Income tax	7	<u>(62,785)</u>	<u>(48,703)</u>
Profit for the period		<u>244,906</u>	<u>197,214</u>
Attributable to:			
– Equity shareholders of the Company		250,644	208,886
– Non-controlling interests		<u>(5,738)</u>	<u>(11,672)</u>
Profit for the period		<u>244,906</u>	<u>197,214</u>
Earnings per share (RMB yuan)			
– Basic	8	<u>0.3132</u>	<u>0.2527</u>
– Diluted	8	<u>0.3117</u>	<u>0.2527</u>

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

For the six months ended 30 June 2021 – unaudited

(Expressed in Renminbi)

	For the six months ended 30 June	
	2021	2020
	<i>RMB' 000</i>	<i>RMB' 000</i>
Profit for the period	244,906	197,214
Other comprehensive income for the period that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of operations outside the mainland China	<u>(158)</u>	<u>40</u>
Total comprehensive income for the period	<u>244,748</u>	<u>197,254</u>
Attributable to:		
– Equity shareholders of the Company	250,486	208,926
– Non-controlling interests	<u>(5,738)</u>	<u>(11,672)</u>
Total comprehensive income for the period	<u>244,748</u>	<u>197,254</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 June 2021 – unaudited
(Expressed in Renminbi)

	<i>Note</i>	At 30 June 2021 <i>RMB' 000</i>	At 31 December 2020 <i>RMB' 000</i>
Non-current assets			
Property, plant and equipment	9	691,127	675,773
Investment properties	9	15,866	16,121
Land use rights		122,108	123,675
Intangible assets	9	356,543	371,423
Other prepayment		55,541	45,679
Deferred tax assets		61,667	58,885
Total non-current assets		<u>1,302,852</u>	<u>1,291,556</u>
Current assets			
Inventories	10	240,208	227,374
Trade and other receivables	11	391,175	458,426
Prepayments		62,157	32,624
Deposits with banks with original maturity date over three months		300,000	–
Restricted cash	12	2,320	–
Cash and cash equivalents		1,715,482	1,940,273
Total current assets		<u>2,711,342</u>	<u>2,658,697</u>
Current liabilities			
Trade and other payables	13	644,733	709,712
Loans and borrowings	14	577,551	549,414
Lease liabilities		3,197	–
Deferred income		2,231	1,629
Current taxation		32,313	71,108
Total current liabilities		<u>1,260,025</u>	<u>1,331,863</u>
Net current assets		<u>1,451,317</u>	<u>1,326,834</u>
Total assets less current liabilities		<u>2,754,169</u>	<u>2,618,390</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 30 June 2021 – unaudited
(Expressed in Renminbi)

	<i>Note</i>	At 30 June 2021 <i>RMB' 000</i>	At 31 December 2020 <i>RMB' 000</i>
Non-current liabilities			
Lease liabilities		11,404	–
Deferred income		19,815	15,629
Deferred tax liabilities		70,820	86,263
		<hr/>	<hr/>
Total non-current liabilities		102,039	101,892
		<hr/>	<hr/>
NET ASSETS		2,652,130	2,516,498
		<hr/>	<hr/>
Capital and reserves			
Share capital	<i>16(b)</i>	64,652	64,424
Reserves		2,297,085	2,155,943
		<hr/>	<hr/>
Total equity attributable to equity shareholders of the Company		2,361,737	2,220,367
Non-controlling interests		290,393	296,131
		<hr/>	<hr/>
TOTAL EQUITY		2,652,130	2,516,498
		<hr/>	<hr/>

Approved and authorised for issue by the board of directors on 24 August 2021.

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

The unaudited interim financial information was extracted from the interim financial report of the Group for the six months ended 30 June 2021.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 24 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of the changes in accounting policies are set out in note 2.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

2 CHANGES IN ACCOUNTING POLICIES

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

- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

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

3 REVENUE AND 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 identified the following two reportable segments. No operating segments have been aggregated to form the following 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.

(a) Disaggregation of revenue

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

	For the six months ended 30 June	
	2021 RMB' 000	2020 RMB' 000
Revenue from contracts with customers within the scope of HKFRS 15		
Kidney medicines	614,944	541,543
Contrast medium	62,422	51,506
Orthopedics medicines	18,699	51,228
Dermatologic medicines	46,342	19,467
Hepatobiliary medicines	40,293	13,963
Women and children medicines	84,867	65,470
Others	18,959	22,679
	<u>886,526</u>	<u>765,856</u>

Analysis of the Group's revenue and results by geographical market has not been presented as over 99% (six months ended 30 June 2020: 99%) of the revenue are generated from the PRC market.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b).

(b) Information about profit or loss, assets and liabilities

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

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include trade creditors and accruals 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. 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 30 June 2021 and 2020 is set out below.

For the six months ended 30 June	Consun Pharmaceutical Segment		Yulin Pharmaceutical Segment		Total	
	2021 RMB' 000	2020 RMB' 000	2021 RMB' 000	2020 RMB' 000	2021 RMB' 000	2020 RMB' 000
Disaggregated by timing of revenue recognition						
Point in time	<u>768,176</u>	<u>664,252</u>	<u>118,350</u>	<u>101,604</u>	<u>886,526</u>	<u>765,856</u>
Reportable segment revenue						
Revenue from external customers	<u>768,176</u>	<u>664,252</u>	<u>118,350</u>	<u>101,604</u>	<u>886,526</u>	<u>765,856</u>
Reportable segment profit						
Gross profit	<u>611,584</u>	<u>540,951</u>	<u>49,656</u>	<u>30,639</u>	<u>661,240</u>	<u>571,590</u>
As at 30 June/31 December						
Reportable segment assets	<u>2,560,781</u>	<u>2,132,792</u>	<u>1,400,671</u>	<u>1,629,053</u>	<u>3,961,452</u>	<u>3,761,845</u>
Reportable segment liabilities	<u>970,069</u>	<u>710,446</u>	<u>297,787</u>	<u>656,336</u>	<u>1,267,856</u>	<u>1,366,782</u>

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

	For the six months ended 30 June	
	2021	2020
	RMB' 000	RMB' 000
Reportable segment profit derived from the Group's external customers	661,240	571,590
Other income	29,758	12,161
Distribution costs	(276,814)	(224,042)
Administrative expenses	(102,598)	(87,790)
Impairment loss on trade receivables and contract assets	1,346	(14,509)
Finance costs	(5,241)	(11,493)
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Consolidated profit before taxation	307,691	245,917
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4 SEASONALITY OF OPERATIONS

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

For the twelve months ended 30 June 2021, the Group reported revenue of RMB1,873,500,000 (twelve months ended 30 June 2020: RMB1,553,076,000), and gross profit of RMB1,411,321,000 (twelve months ended 30 June 2020: RMB1,145,853,000).

5 OTHER INCOME

	For the six months ended 30 June	
	2021	2020
	RMB' 000	RMB' 000
Government grants		
— Unconditional subsidies	1,735	990
— Conditional subsidies	1,123	851
Net rental income from investment properties	241	401
Interest income	20,652	17,266
Loss on disposal of property, plant and equipment	(109)	(19)
Net exchange gains/(losses)	5,495	(6,551)
Others	621	(777)
	<hr/>	<hr/>
	29,758	12,161
	<hr/> <hr/>	<hr/> <hr/>

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs:

	For the six months ended 30 June	
	2021 RMB' 000	2020 RMB' 000
Interest on bank loans	3,167	7,652
Interest expenses on discounted bills	2,074	3,841
	<u>5,241</u>	<u>11,493</u>

(b) Staff costs:

	For the six months ended 30 June	
	2021 RMB' 000	2020 RMB' 000
Salaries, wages, bonuses and benefits	158,774	124,943
Contribution to defined contribution retirement schemes	6,610	3,851
Equity settled share-based payments: Share Option Scheme	15,984	1,976
	<u>181,368</u>	<u>130,770</u>

(c) Other items:

	For the six months ended 30 June	
	2021 RMB' 000	2020 RMB' 000
Depreciation charge		
– Investment properties	255	268
– Other property, plant and equipment	19,404	19,539
Amortisation		
– Land use rights	1,567	1,567
– Intangible assets	14,880	14,769
Leases charges	2,342	1,813
Research and development costs (i)	34,377	30,472
Inventory write-down	14,484	7,506
	<u>14,484</u>	<u>7,506</u>

- (i) During the six months ended 30 June 2021, research and development costs included RMB15,623,000 (six months ended 30 June 2020: RMB10,683,000) 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 6(b) for each of these types of expenses.

7 INCOME TAX

	For the six months ended 30 June	
	2021 RMB' 000	2020 RMB' 000
Current tax		
Provision for PRC income tax	35,967	62,162
PRC dividend withholding tax	22,522	–
Deferred tax		
Origination and reversal of temporary differences	26,818	(13,459)
Effect on distribution of dividends	(22,522)	–
	62,785	48,703

- (i) Consun Pharmaceutical (Inner Mongolia) Co., Ltd. (“**Inner Mongolia Consun**”) was qualified as an “High and New Technology Enterprises” and entitled to the preferential income tax rate of 15% from 2018 to 2020. Inner Mongolia Consun is applying for the extension of “High and New Technology Enterprises” and the entitlement of the preferential income tax rate for 2021 to 2023. In the opinion of the directors, Inner Mongolia Consun would be able to obtain an approval of the preferential income tax rate for 2021 to 2023. Therefore, the PRC income tax rate applicable to Inner Mongolia Consun was 15% for the six months ended 30 June 2021 (six months ended 30 June 2020: 15%).
- (ii) According to the relevant tax law and its implementation rules, dividends receivable by non-PRC-resident corporate investors from PRC-resident enterprises are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. The Company and its Hong Kong subsidiaries obtained the Certificate of Resident Status of the Hong Kong Special Administrative Region and have satisfied the “Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on income” and therefore have adopted the withholding tax rate at 5% for PRC withholding tax purposes for the calendar year 2020 and the two succeeding calendar years.

The directors of the Group 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 30 June 2021, deferred tax liabilities of RMB5,306,000 (31 December 2020: RMB18,227,000) have been provided based on the expected dividends to be distributed from Guangzhou Consun Pharmaceutical Company Limited to the Company in the foreseeable future.

8 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 RMB250,644,000 (six months ended 30 June 2020: RMB208,886,000) and the weighted average number of 800,201,000 ordinary shares (six months ended 30 June 2020: 826,472,000 shares) in issue during the interim period.

	For the six months ended 30 June	
	2021 '000 shares	2020 '000 shares
Issued ordinary shares at 1 January	819,625	865,532
Effect of share options exercised	274	–
Effect of treasury shares held under the Share Award Scheme	(19,698)	(19,698)
Effect of shares repurchased and cancelled	–	(16,123)
Effect of shares repurchased but not yet cancelled	–	(3,239)
	<hr/>	<hr/>
Weighted average number of ordinary shares at 30 June	800,201	826,472

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB250,644,000 (six months ended 30 June 2020: RMB208,886,000) and the weighted average number of ordinary shares of 804,121,000 (six months ended 30 June 2020: 826,581,000 shares).

	For the six months ended 30 June	
	2021 '000 shares	2020 '000 shares
Weighted average number of ordinary shares at 30 June	800,201	826,472
Diluted effect of deemed issue of shares under the Share Option Scheme	3,920	109
	<hr/>	<hr/>
Weighted average number of ordinary shares (diluted) at 30 June	804,121	826,581

9 INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(a) Right-of-use assets

During the six months ended 30 June 2021, the Group entered into a new lease agreement for use of warehouses, and therefore recognised the addition to right-of-use assets of RMB14,601,000 (six months ended 30 June 2020: nil).

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2021, the Group acquired items of property, plant and machinery with a cost of RMB20,554,000 (six months ended 30 June 2020: RMB22,198,000). Items of plant and machinery with a net book value of RMB397,000 were disposed of during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB225,000), resulting in a loss on disposal of RMB109,000 (six months ended 30 June 2020: RMB19,000).

(c) **Intangible assets**

Intangible assets represent trademark with a carrying amount of RMB250,744,000 (31 December 2020: RMB250,744,000) and patents with a carrying amount of RMB105,799,000 (31 December 2020: RMB120,679,000).

No impairment loss was recognized during the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

(d) **Valuation of investment properties**

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

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 30 June 2021 and 31 December 2020.

10 INVENTORIES

	At 30 June 2021 <i>RMB' 000</i>	At 31 December 2020 <i>RMB' 000</i>
Raw materials	125,849	120,129
Work in progress	45,239	43,096
Finished goods	69,120	64,149
	<u>240,208</u>	<u>227,374</u>

11 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2021 <i>RMB' 000</i>	At 31 December 2020 <i>RMB' 000</i>
Within 3 months	303,833	328,529
3 to 12 months	58,981	16,765
Over 12 months	11,852	103,246
Trade debtors and bills receivable, net of loss allowance (i)	374,666	448,540
Other receivables	16,509	9,886
	<u>391,175</u>	<u>458,426</u>

(i) Trade debtors and bills receivable, net of allowance for doubtful debts. Trade debtors and bills receivable are generally due within 30 to 90 days from the date of billing.

12 RESTRICTED CASH

As of the end of the reporting period, restricted cash represented bank deposits frozen by court for a lawsuit. The directors believe that no litigation provision should be made in this regard.

13 TRADE AND OTHER PAYABLES

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

	At 30 June 2021 <i>RMB' 000</i>	At 31 December 2020 <i>RMB' 000</i>
Within 1 month	32,043	48,842
1 to 12 months	3,607	1,359
Over 12 months	1,655	688
	<hr/>	<hr/>
Total trade payable	37,305	50,889
Contract liabilities	12,058	13,857
Refund liabilities	61,585	80,419
Accrued expenses	267,858	265,875
Employee benefits payables	112,916	140,542
Other payables	111,011	108,130
Project development deposits	42,000	50,000
	<hr/>	<hr/>
	644,733	709,712
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14 LOANS AND BORROWINGS

As of the end of the reporting period, loans and borrowings were unsecured bank loans and were repayable as follows:

	At 30 June 2021 <i>RMB' 000</i>	At 31 December 2020 <i>RMB' 000</i>
Within 1 year	577,551	549,414
	<hr/> <hr/>	<hr/> <hr/>

At 30 June 2021, total banking facilities of the Group amounted to RMB840,495,000 (31 December 2020: RMB784,368,000), which were utilised to the extent of RMB577,551,000 (31 December 2020: RMB549,414,000).

As at 30 June 2021, certain banking facilities of the Group amounted to RMB374,445,000 (31 December 2020: RMB402,480,000) are subject to the fulfilment of covenants relating to certain of the Group's or the subsidiaries' financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group had breached the covenants the drawn down loans would have become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2021, none of the covenants relating to drawn down loans had been breached (31 December 2020: nil).

15 EQUITY SETTLED SHARE-BASED TRANSACTIONS

During the six months ended 30 June 2021, 2,755,000 share options were exercised (six months ended 30 June 2020: nil).

16 CAPITAL, RESERVE AND DIVIDENDS

(a) Dividends

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

	For the six months ended 30 June	
	2021	2020
	RMB' 000	RMB' 000
Interim dividend declared after the interim period ended 30 June 2021 of HKD0.1 per share (six months ended 30 June 2020: HKD0.08 per share)	66,874	58,458

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

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

	For the six months ended 30 June	
	2021	2020
	RMB' 000	RMB' 000
Final dividends in respect of the previous financial year, approved and paid during the interim period ended 30 June 2021 of HKD0.2 per share (six months ended 30 June 2020: HKD0.1 per share)	133,950	74,689
Less: Dividends for Buy-back Shares	—	(833)
	133,950	73,856

(b) Share capital

(i) Issued share capital

	Six months ended 30 June 2021		
	Number of shares '000	Nominal value of fully paid shares HKD' 000	Nominal value of fully paid shares RMB' 000
As at 1 January 2021	819,625	81,962	64,424
Shares issued under the Share Option Schemes (note 16(b)(ii))	2,755	276	228
As at 30 June 2021	<u>822,380</u>	<u>82,238</u>	<u>64,652</u>

The ordinary shares of the Company have a par value of HKD0.10 per share.

(ii) Shares issued due to exercise of Share Option Scheme

During the six months period ended 30 June 2021, share options were exercised to subscribe for a total of 2,755,000 (six months ended 30 June 2020: nil) ordinary shares in the Company at a consideration of HKD10,695,000 (equivalent to approximately RMB8,850,000), of which RMB228,000 and RMB11,876,000 were credited to share capital and the share premium account respectively. RMB3,254,000 was transferred from the capital reserve to the share premium account in accordance with the Company's accounting policy.

17 COMMITMENTS

Capital commitments outstanding at 30 June 2021 not provided for in the interim financial report:

	At 30 June 2021 RMB' 000	At 31 December 2020 RMB' 000
Contracted for	154,907	130,899
Authorised but not contracted for	324,917	342,971
Total	<u>479,824</u>	<u>473,870</u>

18 MATERIAL RELATED PARTY TRANSACTIONS

Key management personnel remuneration

	Six months ended 30 June	
	2021 RMB' 000	2020 RMB' 000
Salaries and other benefits	16,672	15,093
Retirement scheme of defined contribution	45	30
Equity settled share-based payment expenses	3,543	4,204
	<u>20,260</u>	<u>19,327</u>

Total remuneration is included in "staff costs" (see note 6(b)).

MANAGEMENT DISCUSSION AND ANALYSIS

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

Business and Financial Review

Sales Revenue

For the six months ended 30 June 2021, the Group's revenue was RMB886,526,000, representing an increase of approximately 15.8% as compared with RMB765,856,000 for the same period last year.

Categorized by product lines, sales of kidney medicines recorded an increase of approximately 13.6% as compared with last year, among which, Uremic Clearance Granules remained as the Group's key product and maintained its leading position in the market; sales of medical contrast medium recorded an increase of 21.2% as compared with last year, still maintained a leading position in the domestic medical contrast medium market for magnetic resonance imaging; sales of orthopedics medicines recorded a decrease of approximately 63.5%; sales of dermatologic medicines recorded an increase of approximately 138.1%; sales of hepatobiliary medicines recorded an increase of approximately 188.6%; sales of women and children medicines recorded an increase of 29.6%; and sales of other medicines recorded a decrease of 16.4%. The increase in overall sales revenue was mainly due to the Group's constant commitment to expanding the product markets and developing the sales network across China.

Gross Profit and Gross Profit Margin

For the first half of 2021, the Group's gross profit was RMB661,240,000, representing an increase of approximately 15.7% as compared with RMB571,590,000 for the same period of 2020. The increase in gross profit was mainly attributable to the increase in sales. For the first half of 2021, the Group's average gross profit margin was 74.6%, remaining largely unchanged as compared with 74.6% for the same period of 2020.

Other Income

For the first half of 2021, the Group's other income was a net income of RMB29,758,000 which mainly included net exchange gain, interest income and government grants. Compared with the net income of RMB12,161,000 for the same period of 2020, the change was mainly due to the increase in net exchange gains from the appreciation of RMB during the period.

Distribution Costs

For the first half of 2021, the Group's distribution costs were RMB276,814,000, representing an increase of approximately 23.6% as compared with RMB224,042,000 for the same period of 2020. The increase in distribution costs was mainly due to the increase in marketing and academic promotion campaigns of the Group to expand the marketing and distribution networks during the period.

Administrative Expenses

For the first half of 2021, the Group's administrative expenses were RMB102,598,000, representing an increase of approximately 16.9% as compared with RMB87,790,000 for the same period of 2020, which was mainly due to the increase in the provision for impairment of inventories and research and development expenses during the period.

Impairment loss on trade receivables and contract assets

For the first half of 2021, the Group's reversal of impairment loss on trade receivables and contract assets was RMB1,346,000, as compared with the impairment loss of RMB14,509,000 for the same period of 2020, which was mainly due to the decrease in the provision for receivables during the period.

Finance Costs

During the first half of 2021, the Group's finance costs were RMB5,241,000, representing a decrease of 54.4% as compared with RMB11,493,000 for the same period of 2020, which was mainly due to the decrease in the interest rate of borrowings during the period.

Income Tax

For the first half of 2021, the Group's income tax expenses were RMB62,785,000, representing an increase of 28.9% as compared with RMB48,703,000 for the same period of 2020, which was mainly due to the increase in profit before taxation and dividend withholding tax during the period as compared with the same period last year. The effective tax rate (income tax expenses divided by profit before taxation) increased by 0.6% from 19.8% for the first half of 2020 to 20.4% for the first half of 2021, remaining largely unchanged year on year.

Profit for the Period and Earnings Per Share

For the first half of 2021, profit attributable to equity shareholders of the Company was RMB250,644,000, representing an increase of approximately 20.0% as compared with RMB208,886,000 for the same period of 2020. Basic and diluted earnings per share for the first half of 2021 amounted to RMB0.3132 and RMB0.3117 respectively, representing an increase of 23.9% and 23.3% as compared with RMB0.2527 and RMB0.2527 of the same period of 2020 respectively.

Liquidity and Financial Resources

Inventories

As at 30 June 2021, the balance of inventories was RMB240,208,000, representing an increase of 5.6% as compared with the balance of RMB227,374,000 as at 31 December 2020. The Group's inventory turnover days in the first half of 2021 were 186.8 days, representing an increase of 1.4 days from 185.4 days in 2020 and remaining largely unchanged year on year.

Trade Debtors and Bills Receivable

As at 30 June 2021, the balance of trade debtors and bills receivable was RMB374,666,000, representing a decrease of approximately 16.5%, as compared with the balance of RMB448,540,000 as at 31 December 2020. The trade receivable turnover days in the first half of 2021 were 83.6 days, representing a decrease of 42.6 days from 126.2 days in 2020, which was mainly due to the enhanced effort in collecting trade debtors that accelerated the recovery.

Trade Payables

As at 30 June 2021, the balance of trade payables was RMB37,305,000, representing a decrease of approximately 26.7% as compared with the balance of RMB50,889,000 as at 31 December 2020. The trade payable turnover days in the first half of 2021 were 35.2 days, representing a decrease of 9.8 days from 45.0 days in 2020, which was mainly due to processing trade payables more rapidly.

Cash Flow from Operating Activities

The net cash generated from operating activities of the Group in the first half of 2021 was RMB193,722,000, representing a decrease of approximately 40.2% as compared with RMB323,758,000 for the same period of 2020, which was mainly attributable to the increase in wages and salaries expenses, payment for operational procurement and tax expenses.

Cash and Bank Balances and Borrowings

As at 30 June 2021, cash and bank balances of the Group were RMB1,715,482,000, representing a decrease of approximately 11.6% as compared with the balance of RMB1,940,273,000 as at 31 December 2020. As at 30 June 2021, the Group's bank borrowings amounted to RMB577,551,000, representing an increase of approximately 5.1% as compared with the balance of RMB549,414,000 as at 31 December 2020.

Treasury Policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the period under review. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time. Cash and cash equivalents of the Group are mainly denominated in RMB and 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 30 June 2021 was approximately 24.5% (31 December 2020: 24.7%). The gearing ratio slightly decreased by 0.2%.

Exchange Risks

The Group's transactions are mainly denominated in RMB and HKD. The majority of assets and liabilities are denominated in RMB and HKD, and there are no significant assets and liabilities denominated in other currencies. During the period, the Company recorded exchange gains in respect of HKD loans as a result of appreciation of RMB against HKD, and the Group will continue to face similar exchange rate risk in the future due to the fluctuation of exchange rates. During the six months ended 30 June 2021, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

Capital Structure

During the six months ended 30 June 2021, the Company issued a total of 2,755,518 ordinary shares pursuant to employees' exercise of share options granted under the Share Option Scheme which was adopted on 2 December 2013 (same period of 2020: none). Apart from that, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Capital Commitments

As at 30 June 2021, the Group had capital commitments of RMB479,824,000 (31 December 2020: RMB473,870,000).

Capital Expenditure

During the first half of 2021, the Group had capital expenditure of RMB20,554,000 (same period of 2020: RMB22,198,000).

Information on Employees

As at 30 June 2021, the Group employed a total of 2,662 employees (31 December 2020: 2,583 employees). For the six months ended 30 June 2021, the total staff costs (including the Directors' remuneration) were RMB181,368,000 (same period of 2020: RMB130,770,000). 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 the Mandatory Provident Fund scheme in Hong Kong and various retirement benefits schemes including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the prevailing regulatory requirements of the PRC. The salaries and benefits of the Group's employees are kept at a competitive level and the employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus system, which is reviewed annually. The Group also operates a Share Option Scheme adopted by the Company on 2 December 2013, and a Share Award Scheme adopted on 21 July 2014, where options to subscribe for shares and share awards may be granted to the Directors and employees of the Group.

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

Significant Investments Held

Except for investments in subsidiaries, as at 30 June 2021, the Group did not hold any significant investment in equity interest in any other company.

Future Plans for Material Investments and Capital Assets

The Group currently does not have other future plans for material investments and capital assets.

Pledge of Assets

As at 30 June 2021, the Group did not have any pledged assets (31 December 2020: nil).

Contingent Liabilities

As at 30 June 2021, the Group did not have any material contingent liabilities (31 December 2020: nil).

Connected Transaction

During the first half of 2021, the Group did not enter into any transactions which constitute non-exempt connected transactions within the meaning of the Rules Governing the Listing of Securities on The Stock Exchange (the “**Listing Rules**”).

Principal Risks and Uncertainties

The 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. The management also pays close attention to the recent developments of national policies in respect of the pharmaceutical industry, which is a key uncertainty facing by the Group, and formulates and adjusts the Group’s relevant policies accordingly on a timely basis.

Environmental Policies And Performance

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

Compliance with the Relevant Laws and Regulations

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

Major Industrial Policies and Their Effects

1. Implementation of New Drug Administration Law

After the newly revised Drug Administration Law took effect on 1 December 2019, Monitoring and Administration Measures on Drug Manufacturing, Administration Measures on Drug Registration and Administration Requirements on Vaccine Manufacturing and Circulation (Draft for Comments) were promulgated successively in 2020, which have, among others, further specified the subject responsibility and enhanced the related system of marketing authorization holders (MAH), revised various standards of research and development technology and registration management of chemical drugs, biological drugs, Chinese medicines and raw, auxiliary and packaging materials for chemical drugs, and continued to reform and enhance the evaluation and approval system and manufacturing management, so as to clarify the drug classification and registration measures at source and strengthen the manufacturing regulation. The system of MAH will benefit the resource consolidation of the Group, help mitigate research and development risks and shorten the time of launching new products. The implementation of the subject responsibility of MAH will lead to more standardized requirements regarding corporate research and development and production stages. On the one hand, the Group implemented the subject responsibility of MAH and strictly complied with the relevant requirements. On the other hand, it fully leveraged the guidelines of new national policies for internal resource integration of the Group so as to increase operating efficiency and reduce operating costs.

2. *Adjustments on the National Medical Insurance Catalogue*

On 1 March 2021, the 2020 Drug Catalogue for National Basic Medical Insurance, Trade and Commerce Insurance and Maternity Insurance (hereinafter referred to as the “**National Medical Insurance Catalogue**”) officially took effect nationwide. The National Medical Insurance Catalogue included 2,800 kinds of drugs in total, comprising 1,426 kinds of Western medicines and 1,374 kinds of Chinese medicines. The Group has a total of 64 drug products included in the 2020 National Medical Insurance Catalogue, of which, two proprietary Chinese medicines, namely Jigucuo Capsule and Palliative & Anti-diarrheal Soft Capsule, are newly included in the National Medical Insurance Catalogue after this round of adjustment and neither of them is subject to restrictions on hospital use and reimbursement. The new inclusion of proprietary drugs of the Group into the National Medical Insurance Catalogue will boost the sales of its products.

3. *Centralized Quantity Procurement Policy of the Chinese Government*

As of June 2021, the Chinese government has organized five centralized quantity pharmaceutical procurements, which were all relating to chemical drugs. On 28 January 2021, the State Council promulgated the Opinions on Promoting Normalized and Systemized Centralized Quantity Pharmaceutical Procurement (《關於推動藥品集中帶量採購工作常態化制度化開展的意見》). Although no product of the Group has been included in centralized quantity procurement, as the scope of centralized quantity procurement is continuously expanding, the Group may also be involved. Having noticed such a trend, the Group has begun to deploy, and actively responded to policy changes through a series of measures such as continuously optimizing the business structure, promoting transformation and upgrade, accelerating the research and development of new products and reasonably controlling and managing costs.

Events after the Reporting Period

As at the date of this announcement, save as disclosed in this announcement, the Group has no significant events after the six months ended 30 June 2021 (the reporting period) required to be disclosed.

Outlook

In the first half of 2021, we achieved a positive growth in the results, which justified our strategy and tactics formulated at the beginning of this year. Looking to the second half of the year, we will continue to strengthen precise marketing and refined management while exploring the potential room for development in the market. Apart from maintaining the stable growth of our principal activities, we will increase efforts in market expansion as well as R&D and innovation.

In terms of the prescription drug business, we will improve our business coverage and deployment plans to enhance the growth curve and focus on both aggressive and defensive strategies to maintain our leading position in the industry.

Regarding the OTC business, our approach centres on “brand promotion, academic empowerment and terminal marketing”. With a focus on four main products, we will take advantage of our brand to maintain our stable prices, rationalise the channel value chain and boost the distribution rate and coverage of terminals, so as to achieve steady growth of revenue and profit as soon as possible.

In respect of R&D and innovation, Consun will accelerate the process of product upgrade by pushing forward the strategic cooperation with WuXi AppTec and Chengdu Brilliant, which will further optimise our business model that combines independent R&D and outsourcing.

Although the road is long and arduous, perseverance will lead us to a bright future. Consun Pharmaceutical will remain committed to its initial mission and face challenges ahead with concerted efforts of all employees, thereby seizing new opportunities and delivering more outstanding performances in the post-pandemic new normal.

INTERIM DIVIDEND

The Board is pleased to announce the distribution of an interim dividend (the “**Interim Dividend**”) of HKD0.1 per share in respect of the six months ended 30 June 2021 (2020 interim dividend: HKD0.08 per share), which amounted to approximately RMB66,874,000 (2020 interim dividend: approximately RMB58,458,000). It is expected that the Interim Dividend will be paid on or about Wednesday, 15 September 2021 to the shareholders whose names appear on the register of members of the Company on Wednesday, 8 September 2021.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders’ entitlement to the Interim Dividend, the register of members of the Company will be closed from Friday, 3 September 2021 to Wednesday, 8 September 2021 (both days inclusive) during which period no transfer of shares will be effected.

In order to qualify for the entitlements to the Interim Dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s 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 Thursday, 2 September 2021.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2021, the Company issued a total of 2,755,518 ordinary shares pursuant to employees' exercise of share options granted under the Share Option Scheme (adopted on 2 December 2013) at a consideration between HKD3.28 and HKD4.476 per share.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2021.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has been maintaining the prescribed public float under the Listing Rules during the six months ended 30 June 2021.

CORPORATE GOVERNANCE

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

The Company has adopted and complied with the code provisions set out in Appendix 14, *Corporate Governance Code* and *Corporate Governance Report*, of the Listing Rules (the "**Code Provisions**") during the six months ended 30 June 2021.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules. The Company confirms that, having made specific enquiry of all Directors, all the Directors have complied with the required standards of dealing as set out in the Model Code during the six months ended 30 June 2021.

BOARD DIVERSITY POLICY

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. With a view to achieving sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development, and has adopted the Board Diversity Policy.

All Board appointments are based on meritocracy, and candidates are considered against appropriate criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

For the purpose of implementation of the Board Diversity Policy, the following measurable objectives were adopted:

- (A) at least 40% of the members of the Board shall be non-executive Directors or independent non-executive Directors;
- (B) at least 1/3 of the members of the Board shall be independent non-executive Directors;
- (C) at least 1 of the members of the Board shall have obtained accounting or relevant financial management professional qualifications;
- (D) at least 50% of the members of the Board shall have 7 years or more of experience in the industry he/she is specialised in; and
- (E) at least 2 of the members of the Board shall have China-related work experience.

The Board always attaches great importance to the above measurable objectives. Following the appointments of two executive Directors on 23 March 2021, the proportion of non-executive Directors of the Board decreased to 37.5%, which was slightly less than the target of 40%. After appointing Ms. ZHANG Lihua as the non-executive Director on 9 July 2021, the proportion of non-executive Directors of the Board was restored to 50%. Save as disclosed above, the Board has been meeting the measurable objectives of the Board Diversity Policy during the six months ended 30 June 2021.

AUDIT COMMITTEE

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

The Audit Committee reports to the Board and has held regular meetings to review and make recommendations to improve the Group's financial reporting process and internal controls. The primary duties of the Audit Committee, among other things, are to make recommendation to the Board on the appointment, re-appointment and removal of external auditor, review the financial statements and advice in respect of financial reporting and oversee 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 unaudited Interim Results of the Group for the six months ended 30 June 2021 have been reviewed by the Audit Committee and the Company's external auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the HKICPA.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This Interim results announcement is published on the websites of the Company (www.chinaconsun.com) and The Stock Exchange (www.hkexnews.hk), and the interim report of the Company for the six months ended 30 June 2021 will be despatched to shareholders of the Company and published on the above websites in due course.

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

Hong Kong, 24 August 2021

As at the date of this announcement, the Board comprises Mr. AN Meng, Ms. LI Qian, Professor ZHU Quan and Mr. XU Hanxing as executive directors; Ms. ZHANG Lihua as non-executive director; Mr. SU Yuanfu, Mr. FENG Zhongshi and Ms. CHEN Yujun as independent non-executive directors.