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 2022

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 December 2022 amounted to RMB2,339,650,000, representing an increase of approximately 14.4% as compared with the year ended 31 December 2021.
- Profit attributable to equity shareholders of the Company for the year ended 31 December 2022 amounted to RMB682,907,000, representing an increase of approximately 15.7% as compared with the year ended 31 December 2021.
- Basic and diluted earnings per share for the year ended 31 December 2022 amounted to approximately RMB0.86 and RMB0.86 respectively, representing an increase of approximately 16.2% and 17.8% respectively as compared with the year ended 31 December 2021.
- The Board proposed to declare a final dividend of HKD0.3 per share for the year ended 31 December 2022.

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Consun Pharmaceutical Group Limited (the "**Company**") is pleased to announce the consolidated financial results of the Company and its subsidiaries (collectively the "**Group**", "**Consun Pharmaceutical**" or "**Consun Pharmaceutical Group**") for the year ended 31 December 2022 (the "**Annual Results**"), together with the comparative figures of 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2022
(Expressed in Renminbi)

	Note	**2022**	2021
		RMB'000	*RMB'000*
Revenue	*2*	**2,339,650**	2,044,660
Cost of sales		**(576,738)**	(517,324)
Gross profit		**1,762,912**	1,527,336
Other income	*3*	**56,385**	63,384
Distribution costs		**(771,960)**	(620,041)
Administrative expenses		**(322,504)**	(279,956)
Reversals of impairment loss on trade and other receivables	*15*	**32,493**	18,043
Profit from operations		**757,326**	708,766
Finance costs	*4(a)*	**(10,933)**	(12,905)
Profit before taxation	*4*	**746,393**	695,861
Income tax	*5(a)*	**(62,696)**	(108,744)
Profit for the year		**683,697**	587,117
Attributable to:			
– Equity shareholders of the Company		**682,907**	590,172
– Non-controlling interests		**790**	(3,055)
Profit for the year		**683,697**	587,117
Earnings per share (RMB yuan)	*6*		
– Basic		**0.86**	0.74
– Diluted		**0.86**	0.73

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2022
(Expressed in Renminbi)

	2022	2021
	RMB'000	*RMB'000*
Profit for the year	**683,697**	587,117
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 Mainland China	**231**	163
Total comprehensive income for the year	**683,928**	587,280
Attributable to:		
－Equity shareholders of the Company	**683,138**	590,335
－Non-controlling interests	**790**	(3,055)
Total comprehensive income for the year	**683,928**	587,280

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2022
(Expressed in Renminbi)

	Note	**2022**	2021
		RMB'000	*RMB'000*
Non-current assets			
Investment property	*8*	**15,127**	15,620
Property, plant and equipment	*9*	**746,213**	724,633
Right-of-use assets	*10*	**128,786**	133,815
Intangible assets	*11*	**311,904**	341,664
Financial asset measured at fair value through profit or loss (FVPL)	*12*	**6,500**	–
Other prepayments	*13*	**24,747**	44,318
Deferred tax assets		**36,432**	46,859
		1,269,709	1,306,909
Current assets			
Inventories	*14*	**276,080**	243,035
Trade and other receivables	*15(a)*	**295,663**	369,567
Prepayments	*15(b)*	**11,583**	14,584
Deposits with banks with original maturity date over three months		**589,172**	230,000
Restricted cash	*16*	**–**	2,320
Cash and cash equivalents	*16*	**2,450,173**	2,196,323
		3,622,671	3,055,829
Current liabilities			
Trade and other payables	*17*	**861,109**	750,214
Loans and borrowings	*18*	**450,521**	599,302
Lease liabilities	*19*	**3,708**	3,124
Deferred income	*20*	**2,261**	2,231
Current taxation		**32,889**	2,536
		1,350,488	1,357,407
Net current assets		**2,272,183**	1,698,422
Total assets less current liabilities		**3,541,892**	3,005,331

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2022 (continued)
(Expressed in Renminbi)

	Note	**2022**	2021
		RMB'000	*RMB'000*
Non-current liabilities			
Lease liabilities	*19*	**5,947**	8,547
Deferred income	*20*	**18,929**	16,700
Deferred tax liabilities		**78,011**	69,303
		102,887	94,550
Net assets		**3,439,005**	2,910,781
Capital and reserves			
Share capital		**63,450**	64,800
Reserves		**3,081,689**	2,552,905
Total equity attributable to equity shareholders of the Company		**3,145,139**	2,617,705
Non-controlling interests		**293,866**	293,076
Total equity		**3,439,005**	2,910,781

NOTES

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. These 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 amendments to 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 accounting period reflected in these financial statements.

(b) Changes in accounting policies

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- *Amendments to HKAS 16, Property, plant and equipment: Proceeds before intended use*

- *Amendments to HKAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

None of these amendments 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:

	2022	2021
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Kidney medicines	**1,569,418**	1,364,683
Contrast medium	**163,394**	140,752
Orthopedics medicines	**175,022**	114,316
Dermatologic medicines	**114,930**	108,725
Hepatobiliary medicines	**46,330**	67,400
Gynaecology and paediatrics medicines	**239,393**	205,793
Others	**31,163**	42,991
	2,339,650	2,044,660

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.

The Group's customer base is diversified and includes two customers (2021: two) with whom transactions have exceeded 10% of the Group's revenues. In 2022 revenues to each of these two customers, including sales to entities which are known to the group to be under common control with these customers are as follows.

	2022	2021
	RMB'000	*RMB'000*
Customer A	**630,804**	509,887
Customer B	**306,138**	244,159

As at 31 December 2022, the transaction price under the Group's existing contracts was fully recognised as revenue.

The Group has applied practical expedient in paragraph 121(a) of HKFRS 15, Revenue from Contracts with Customers, to exempt the disclosure of revenue expected to be recognised in the future arising from contracts with the customers in existence at the end of reporting period as the performance obligation is part of a contract that has an original expected duration of one year or less.

(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 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 investments in financial asset measured at FVPL and deferred tax assets. Segment liabilities include trade creditors, accruals, bills payable, deferred income and lease liabilities attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments with the exception of current taxation and deferred tax liabilities.

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.

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.

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 2022 and 2021 is set out below:

	Consun Pharmaceutical Segment		**Yulin Pharmaceutical Segment**		**Total**	
For the year ended 31 December	**2022**	2021	**2022**	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Disaggregated by timing of revenue recognition						
Point in time	**1,981,051**	1,732,983	**358,599**	311,677	**2,339,650**	2,044,660
Reportable segment revenue						
Revenue from external customers	**1,981,051**	1,732,983	**358,599**	311,677	**2,339,650**	2,044,660
Reportable segment profit						
Gross profit	**1,574,367**	1,371,398	**188,545**	155,938	**1,762,912**	1,527,336
Interest income from bank deposits	**49,652**	38,142	**2,762**	1,106	**52,414**	39,248
Interest expense	**8,659**	11,784	**2,274**	1,121	**10,933**	12,905
Depreciation and amortisation for the year	**28,272**	24,282	**48,083**	48,707	**76,355**	72,989
Recognition/(reversals) of impairment loss – trade and other receivables	**6,800**	(1,283)	**(39,293)**	(16,760)	**(32,493)**	(18,043)
Reportable segment assets	**3,295,645**	2,848,311	**1,557,768**	1,504,335	**4,853,413**	4,352,646
Reportable segment liabilities	**920,958**	1,000,841	**425,482**	416,044	**1,346,440**	1,416,885

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

	2022	2021
	RMB'000	*RMB'000*
Reportable segment gross profit derived from the Group's external customers	**1,762,912**	1,527,336
Other income *(note 3)*	**56,385**	63,384
Distribution costs	**(771,960)**	(620,041)
Administrative expenses	**(322,504)**	(279,956)
Reversals of impairment loss on trade and other receivables	**32,493**	18,043
Finance costs *(note 4(a))*	**(10,933)**	(12,905)
Consolidated profit before taxation	**746,393**	695,861

	2022 *RMB'000*	2021 *RMB'000*
Assets		
Reportable segment assets	**4,853,413**	4,352,646
Elimination of inter-segment receivables	**(3,965)**	(36,767)
	4,849,448	4,315,879
Financial asset measured at FVPL *(note 12)*	**6,500**	–
Deferred tax assets	**36,432**	46,859
Consolidated total assets	**4,892,380**	4,362,738

	2022 *RMB'000*	2021 *RMB'000*
Liabilities		
Reportable segment liabilities	**1,346,440**	1,416,885
Elimination of inter-segment payables	**(3,965)**	(36,767)
	1,342,475	1,380,118
Current taxation	**32,889**	2,536
Deferred tax liabilities	**78,011**	69,303
Consolidated total liabilities	**1,453,375**	1,451,957

(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 Mainland China.

3 OTHER INCOME

	2022	2021
	RMB'000	*RMB'000*
Government grants (i)		
– Unconditional subsidies	**16,275**	2,693
– Conditional subsidies (*note 20*)	**2,241**	4,237
Rental income from investment property	**828**	1,261
Interest income	**52,414**	39,248
Loss on disposal of property, plant and equipment	**(1,218)**	(1,990)
Net exchange (losses)/gains	**(9,278)**	11,326
Others	**(4,877)**	6,609
	56,385	63,384

(i) Government grants represent various forms of incentives and subsidies granted to the Group by the local government authorities in the People's Republic of China ("**PRC**").

– Unconditional subsidies

The entitlements to certain government grants amounting to RMB16,275,000 (2021: RMB2,693,000) 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 2022 was RMB2,241,000 (2021: RMB4,237,000) (see note 20).

4 PROFIT BEFORE TAXATION

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

(a) Finance costs

	2022	2021
	RMB'000	*RMB'000*
Interest on bank loans	**10,271**	9,017
Interest expenses on discounted bills	**99**	3,545
Interest on lease liabilities	**563**	343
	10,933	12,905

(b) Staff costs

	2022	2021
	RMB'000	*RMB'000*
Salaries, wages, bonuses and benefits	**432,151**	331,093
Contributions to defined contribution retirement schemes	**15,302**	11,492
Equity settled share-based transactions:		
Share Option Scheme	**(1,784)**	20,003
Share Award Scheme	**–**	3,408
	445,669	365,996

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in defined contribution retirement schemes organised by the local government authorities, to which the PRC subsidiaries are required to make contributions 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 also operates a Mandatory Provident Fund Scheme ("**the MPF scheme**") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of Hong Kong Dollars ("**HKD**") 30,000. Contributions to the plan vest immediately, there is no forfeited contributions that may be used by the Group to reduce the existing level of contribution.

The Group has no other material obligations for payments of retirement and other post-retirement benefits of employees other than the contributions described above.

(c) Other items

	Note	2022	2021
		RMB'000	*RMB'000*
Depreciation and amortisation charge			
– investment property	*8*	**493**	501
– property, plant and equipment	*9*	**40,227**	38,268
– right-of-use assets	*10*	**5,875**	4,461
– intangible assets	*11*	**29,760**	29,759
		76,355	72,989
Auditor's remuneration			
– audit services		**2,300**	2,300
– non-audit services		**500**	500
		2,800	2,800
Reversals of impairment loss on trade and other receivables		**(32,493)**	(18,043)
Leases charges	*10*	**4,245**	3,935
Research and development costs (i)		**117,539**	102,160
Cost of inventories (ii)	*14*	**576,738**	517,324

(i) During the year ended 31 December 2022, research and development costs included RMB25,817,000 (2021: RMB27,096,000) 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.

(ii) During the year ended 31 December 2022, cost of inventories included RMB111,092,000 (2021: RMB105,722,000) 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:

	2022 *RMB'000*	2021 *RMB'000*
Current tax		
Provision for PRC income tax for the year	**19,826**	67,798
PRC dividend withholding tax (iv)	**–**	47,567
Under/(over)-provision for PRC income tax in respect of prior years (vi)	**23,735**	(1,687)
	43,561	113,678
Deferred tax		
Origination and reversal of temporary differences	**19,135**	42,633
Effect on distribution of dividends (iv)	**–**	(47,567)
	19,135	(4,934)
	62,696	108,744

(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 2022 (2021: 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 "High and New Technology Enterprises", Inner Mongolia Consun and Guangzhou Consun were entitled to the preferential income tax rate of 15% from 2021 to 2023 and 2020 to 2022, 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 2030.

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 2022 (2021: 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 2021 and 2022.

Consun Pharmaceutical (Horgos) Co., Ltd. ("**Horgos Consun**") enjoyed the benefit of income tax exemption for five years from the financial year starting to generate operating revenue in 2021 under the Notice of the Ministry of Finance and the State Administration of Taxation on Income Tax Incentives for Newly-established Enterprises in Poverty Areas of Xinjiang.

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

As at 31 December 2022, deferred tax liabilities of RMB19,915,000 (31 December 2021: RMB6,257,000) have been provided for in this regard based on the expected dividends to be distributed from the PRC subsidiaries in the foreseeable future.

(v) According to relevant tax law in the PRC, PRC subsidiaries of the Group engaging in research and development activities are entitled to claim additional 100% of their research and development expenses so incurred as tax deductible expenses when determining their assessable profits for each year ("**Super Deduction**"). The Group has made its best estimate for Super Deduction to be claimed for the Group's entities in ascertaining their assessable profits during the year.

(vi) The Group reviewed tax affairs of certain subsidiaries, inter alia, the deductibility of marketing expenses for corporate income tax purposes in respect of prior years. The Group had agreed with local tax authorities and provided an additional tax expense of RMB23,715,000 (2021: Nil) during the year ended 31 December 2022.

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

	2022	2021
	RMB'000	*RMB'000*
Profit before taxation for the year	**746,393**	695,861
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**199,584**	186,330
Effect of non-deductible expenses	**18,038**	12,148
Effect of tax concessions	**(189,094)**	(120,091)
Effect of Super Deduction on research and development expenses *(Note 5(a)(v))*	**(3,225)**	(3,553)
Provision of withholding tax on undistributed profits retained by PRC subsidiaries	**13,658**	35,597
Under/(over)-provision in respect of prior years *(note 5(a)(vi))*	**23,735**	(1,687)
Actual tax expenses	**62,696**	108,744

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 RMB682,907,000 (2021: RMB590,172,000) and the weighted average number of ordinary shares of 790,627,000 shares (2021: 801,581,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2022	2021
	'000 shares	*'000 shares*
Issued ordinary shares at 1 January	**824,218**	819,625
Effect of shares repurchased and cancelled	**(15,761)**	–
Effect of shares repurchased but not yet cancelled	**–**	(786)
Effect of share options exercised	**653**	2,300
Effect of treasury shares held under the Share Award Scheme	**(18,483)**	(19,698)
Effect of Award Shares vested under the Share Award Scheme	**–**	140
Weighted average number of ordinary shares at 31 December	**790,627**	801,581

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 December 2022 is based on the profit attributable to equity shareholders of the Company of RMB682,907,000 (2021: RMB590,172,000) and the weighted average number of ordinary shares of 791,997,000 shares (2021: 804,702,000 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2022	2021
	'000 shares	*'000 shares*
Weighted average number of ordinary shares at 31 December	**790,627**	801,581
Dilutive effect of deemed issue of shares under the Share Option Scheme	**1,370**	3,048
Dilutive effect of awarded shares under the Share Award Scheme	**–**	73
Weighted average number of ordinary shares (diluted) at 31 December	**791,997**	804,702

7 DIVIDENDS

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

	2022 *RMB'000*	2021 *RMB'000*
Interim dividend declared and paid after the interim period (six months ended 30 June 2021: HKD0.10 per share)	**–**	66,874
Final dividend proposed after the end of the year of HKD0.30 per ordinary share (2021: HKD0.20)	**208,065**	128,691
	208,065	195,565

The 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

	2022 *RMB'000*	2021 *RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year of HKD0.20 per ordinary share (2021: HKD0.20)	**128,691**	133,950
Less: Dividends for Buy-back Shares	**(1,199)**	–
	127,492	133,950

8 INVESTMENT PROPERTY

	Land use rights *RMB'000*	Buildings *RMB'000*	Total *RMB'000*
Cost			
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	5,004	13,886	18,890
Accumulated depreciation:			
At 1 January 2021	(608)	(2,161)	(2,769)
Charge for the year	(135)	(366)	(501)
At 31 December 2021	(743)	(2,527)	(3,270)
Charge for the year	(135)	(358)	(493)
At 31 December 2022	(878)	(2,885)	(3,763)
Net book value:			
At 31 December 2022	4,126	11,001	15,127
At 31 December 2021	4,261	11,359	15,620

The Group leases out investment property under operating leases. The leases typically run for an initial period ranging from 1 to 10 years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments usually reflect market rentals. None of the leases includes variable lease payments.

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

	2022 ***RMB'000***	2021 *RMB'000*
Within 1 year	**653**	821
After 1 year but within 2 years	**222**	653
After 2 year but within 3 years	**228**	222
After 3 year but within 4 years	**235**	228
After 4 year but within 5 years	**242**	235
After 5 years	**292**	534
	1,872	2,693

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 2021 and 2022.

9 PROPERTY, PLANT AND EQUIPMENT

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 2021	333,154	224,342	21,698	22,955	314,654	916,803
Transfer from construction in progress	988	2,356	–	171	(3,515)	–
Other additions	1,531	12,706	2,182	2,490	70,531	89,440
Disposals	(1,571)	(3,588)	(2,229)	(934)	–	(8,322)
At 31 December 2021 and 1 January 2022	334,102	235,816	21,651	24,682	381,670	997,921
Transfer from construction in progress	2,059	10,625	7	943	(13,634)	–
Other additions	2,413	13,272	612	2,852	47,977	67,126
Disposals	(3,756)	(6,938)	(393)	(970)	–	(12,057)
At 31 December 2022	334,818	252,775	21,877	27,507	416,013	1,052,990
Accumulated depreciation:						
At 1 January 2021	(115,011)	(99,221)	(11,376)	(15,422)	–	(241,030)
Charge for the year	(14,496)	(19,736)	(1,522)	(2,514)	–	(38,268)
Written back on disposal	346	2,775	2,050	839	–	6,010
At 31 December 2021 and 1 January 2022	(129,161)	(116,182)	(10,848)	(17,097)	–	(273,288)
Charge for the year	(13,658)	(20,600)	(1,727)	(4,242)	–	(40,227)
Written back on disposal	850	4,955	59	874	–	6,738
At 31 December 2022	(141,969)	(131,827)	(12,516)	(20,465)	–	(306,777)
Net book value:						
At 31 December 2022	192,849	120,948	9,361	7,042	416,013	746,213
At 31 December 2021	204,941	119,634	10,803	7,585	381,670	724,633

10 RIGHT-OF-USE ASSETS

	Land use rights *RMB'000* *Note (i)*	Buildings *RMB'000* *Note (ii)*	Total *RMB'000*
Cost:			
At 1 January 2021	143,799	–	143,799
Additions	–	14,601	14,601
At 31 December 2021	143,799	14,601	158,400
Additions	–	846	846
At 31 December 2022	143,799	15,447	159,246
Accumulated depreciation:			
At 1 January 2021	(20,124)	–	(20,124)
Charge for the year	(3,133)	(1,328)	(4,461)
At 31 December 2021	(23,257)	(1,328)	(24,585)
Charge for the year	(3,133)	(2,742)	(5,875)
At 31 December 2022	(26,390)	(4,070)	(30,460)
Net book value:			
At 31 December 2022	117,409	11,377	128,786
At 31 December 2021	120,542	13,273	133,815

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

	2022 *RMB'000*	2021 *RMB'000*
Depreciation charge of right-of-use assets of underlying asset	**5,875**	4,461
Interest on lease liabilities *(note 4(a))*	**563**	343
Expense relating to short-term leases	**4,210**	3,907
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**35**	28

During the year, additions to right-of-use assets were RMB846,000 (2021: RMB14,601,000). This amount was related to the capitalised lease payments payable under new tenancy agreements.

(i) Land use rights

It represents prepayments for the land use rights which was identified as right-of-use assets under HKFRS 16 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 26 to 44 years.

On 31 May 2019, the Group entered into a series of cooperative development agreements with Guangxi Huafa Real Estate Development Co., Ltd. ("**Guangxi Huafa**") and Yulin City Shunlang Real Estate Investment Co., Ltd. ("**Yulin Shunlang**") in relation to a development project of a plant site of Yulin Pharmaceutical. Pursuant to the cooperative development agreements, a parcel of land wholly owned by Yulin Pharmaceutical with the total site area of approximately 83,670 sq.m. ("**Parcel-1**"), shall be developed integrally together with other parcels of land planned to be acquired after Yulin Pharmaceutical has removed all plant and machinery located on the site. Parcel-1 is located at No.3, Jiangnan Road, Yulin City, Guangxi Province, the PRC.

As at 31 December 2022, the development project was still in the initial planning stage and Parcel-1 was still being occupied and wholly owned by Yulin Pharmaceutical for its own use for production, office and storage purposes.

(ii) Buildings

The Group has obtained the right to use certain buildings through tenancy agreements. The leases typically run for an initial period of 5 years. Lease payments are usually increased to reflect market rentals.

11 INTANGIBLE ASSETS

	Patents	Trademark	Total
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
At 1 January 2021, 31 December 2021 and 31 December 2022	253,283	256,233	509,516
Accumulated amortisation:			
At 1 January 2021	(132,604)	–	(132,604)
Charge for the year	(29,759)	–	(29,759)
At 31 December 2021	(162,363)	–	(162,363)
Charge for the year	(29,760)	–	(29,760)
At 31 December 2022	(192,123)	–	(192,123)
Accumulated impairment losses:			
At 1 January 2021, 31 December 2021 and 31 December 2022	–	(5,489)	(5,489)
Net book value:			
At 31 December 2022	61,160	250,744	311,904
At 31 December 2021	90,920	250,744	341,664

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

Trademark acquired through business combination 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 Yulin CGU.

The recoverable amount of Yulin CGU was determined based on value-in-use calculations by the directors of the Company, with the reference to professional valuation reports issued by Jones Lang LaSalle Incorporated, independent firm of professionally qualified valuers. 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 11.6% (2021: 14.3%). Cash flows beyond the aforementioned financial forecasts period are extrapolated using estimated sales growth rate of 3% (2021: 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 16.97% (2021: 17.2%). 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.

No impairment loss was recognised during the year ended 31 December 2022 (2021: Nil).

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	18.69%
Average revenue growth rate decrease to	9.21%

12 FINANCIAL ASSET MEASURED AT FVPL

	2022	2021
	RMB'000	*RMB'000*
Investments not held for trading		
– Unlisted investment fund	**6,500**	–

13 OTHER PREPAYMENTS

	2022	2021
	RMB'000	*RMB'000*
Prepayments for purchase of property, plant and equipment	**24,747**	44,318

14 INVENTORIES

	2022	2021
	RMB'000	*RMB'000*
Raw materials	**192,200**	148,255
Work in progress	**37,794**	43,609
Finished goods	**46,086**	51,171
	276,080	243,035

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

	2022	2021
	RMB'000	*RMB'000*
Cost of inventories sold	**576,738**	517,324
Write down of inventories	**21,859**	23,894
	598,597	541,218

All of the inventories are expected to be recovered within one year.

15 TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

(a) Trade and other receivables

	2022	2021
	RMB'000	*RMB'000*
Trade receivables net of loss allowance (i)	**163,237**	222,590
Bills receivable (ii)	**96,325**	128,636
Interest receivables	**14,956**	7,482
Other debtors, net of loss allowance (iii)	**21,145**	10,859
	295,663	369,567

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

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 or bills acceptance date and net of loss allowance, is as follows:

	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**187,762**	281,114
3 to 12 months	**39,605**	36,950
Over 12 months	**32,195**	33,162
	259,562	351,226

(i) Trade debtors are generally due within 30 to 90 days from the date of billing.

(ii) Bills receivable derecognise within one year from the date of bills acceptance.

(iii) As at 31 December 2022, the Group's other receivables of RMB524,000 (31 December 2021: RMB524,000) were determined to be impaired in full.

(b) Prepayments

	2022	2021
	RMB'000	*RMB'000*
Prepayments for raw materials and others	**11,583**	14,584

16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2022	2021
	RMB'000	*RMB'000*
Cash at bank and on hand	**2,450,173**	2,198,643
Less: Restricted cash	**–**	2,320
	2,450,173	2,196,323

As at 31 December 2022, cash and cash equivalents situated in Mainland China amounted to RMB2,071,203,000 (31 December 2021: RMB1,378,567,000). Remittance of funds out of Mainland China is subject to relevant rules and regulations of foreign exchange control.

17 TRADE AND OTHER PAYABLES

	2022	2021
	RMB'000	*RMB'000*
Trade payables (i)	**59,891**	66,638
Contract liabilities (ii)	**37,714**	18,979
Accrued expenses	**380,176**	307,785
Employee benefits payable	**185,956**	157,743
Payable for purchase of property, plant and equipment	**17,648**	21,682
Other payables	**68,647**	69,381
Project development deposits (iii)	**31,674**	31,674
Financial liabilities measured at amortised cost	**781,706**	673,882
Refund liabilities:		
– arising from sales rebates	**79,403**	76,332
Total	**861,109**	750,214

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

(i) 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:

	2022	2021
	RMB'000	*RMB'000*
Within 1 month	**43,405**	47,535
1 to 12 months	**14,882**	15,904
Over 12 months	**1,604**	3,199
	59,891	66,638

(ii) As of the end of the reporting period, the contract liabilities are as follows:

	2022	2021
	RMB'000	*RMB'000*
Sales contracts		
– Billings in advance of performance	**37,714**	18,979

Movements in contract liabilities:

	2022	2021
	RMB'000	*RMB'000*
Balance at 1 January	**18,979**	13,857
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(18,979)**	(13,857)
Increase in contract liabilities as a result of billing in advance of construction and manufacturing activities	**37,714**	18,979
Balance at 31 December	**37,714**	18,979

All of the contract liabilities are expected to be recognised as income within one year.

(iii) As of 31 December 2022, project development deposits represented deposits received by the Group from Guangxi Huafa and Yulin Shunlang pursuant to a series of cooperative development agreements (see note 10(i)).

18 LOANS AND BORROWINGS

(a) The analysis of the repayment schedule of bank loans is as follows:

	2022	2021
	RMB'000	*RMB'000*
Within 1 year or on demand	**450,521**	599,302

(b) Assets pledged as security and covenants for bank loans

At 31 December 2022, the bank loans were secured as follows:

	2022	2021
	RMB'000	*RMB'000*
Bank loans		
– secured	**–**	30,000
– unsecured	**450,521**	569,302
	450,521	599,302

At 31 December 2022, the Group's banking facilities amounted to RMB1,459,975,000 (2021: RMB1,008,480,000) were utilised to the extent of RMB450,521,000 (2021: RMB599,302,000).

As at 31 December 2022, banking facilities of the Group amounted to RMB591,315,000 (31 December 2021: RMB579,680,000) 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 were to breach the covenants, the drawn down loans would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 31 December 2022, none of the covenants relating to drawn down loans had been breached (31 December 2021: Nil).

19 LEASE LIABILITIES

At 31 December 2022, the lease liabilities were repayable as follows:

	2022	2021
	RMB'000	*RMB'000*
Within 1 year or on demand	**3,708**	3,124
After 1 year but within 2 years	**3,113**	2,982
After 2 years but within 5 years	**2,834**	5,565
	5,947	8,547
	9,655	11,671

20 DEFERRED INCOME

	2022	2021
	RMB'000	*RMB'000*
At 1 January	**18,931**	17,258
Additions	**4,500**	5,910
Credited to profit or loss *(note 3)*	**(2,241)**	(4,237)
At 31 December	**21,190**	18,931
Representing:		
Current portion	**2,261**	2,231
Non-current portion	**18,929**	16,700
	21,190	18,931

Deferred income of the Group mainly includes various conditional government grants for research and development projects of new or existing pharmaceutical products and subsidies relating to purchase of land use rights, which would be recognised as income on a systematic basis in the same periods in which the related costs of relevant activities are incurred or on straight-line basis over the expected useful life of the relevant assets.

21 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 7.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of Consun Pharmaceutical Group Limited (the "**Company**"), I am pleased to present the audited consolidated results of the Company and its subsidiaries (collectively referred as the "**Group**", "**Consun Pharmaceutical**" or "**Consun Pharmaceutical Group**") for the year ended 31 December 2022.

I. Industrial and Business Review

In 2022, the pharmaceutical industry in the PRC struggled to move forward under the influence of various factors, including sporadic outbreak of the pandemic, normalization of price reduction due to centralized procurement and medical insurance payment control and rising raw material prices. Facing such difficulties, all employees of Consun Pharmaceutical have made great efforts to forge ahead and actively adopted responsive measure to overcome adverse factors such as the pandemic and centralized procurement, thereby delivering a satisfactory performance with sustained positive growth in both revenue and profits, which is particularly commendable.

In 2022, the Group recorded sales revenue of approximately RMB2.34 billion, representing an increase of approximately 14.4% over last year, and its profit attributable to equity shareholders of the Company was approximately RMB0.68 billion, representing an increase of approximately 15.7% over last year.

1. In terms of business segments, sales revenue of Consun Pharmaceutical Segment amounted to approximately RMB1.98 billion, representing a year-on-year increase of approximately 14.3%, among which:

   1) The sales revenue of kidney medicines amounted to approximately RMB1.57 billion in 2022, representing a year-on-year increase of approximately 15.0%. The Uremic Clearance Granules (尿毒清顆粒), which is the Group's flagship product, maintained a steady growth and achieved sales revenue of approximately RMB1.50 billion, representing a year-on-year increase of approximately 14.4%. Although The Uremic Clearance Granules were included in the centralized procurement catalogues of individual cross-province alliance from the beginning of the year, it is exclusive and has a definite efficacy and qualifications with the only "strongly recommended" medicine in the Clinical Application Guidelines for Chinese Medicines in the Treatment of Specialty Conditions (《中成藥治療優勢病種(CKD)臨床應用指南》), which further strengthened the Company's academic foundation for clinical promotion and made a good performance for the year. The Kidney Repair and Edema Alleviation Granules (益腎化濕顆粒) also achieved satisfactory results. After the removal of medical insurance restrictions, it also won the strong recommendation of Ia level in the "Diabetic Nephropathy Combined Diagnosis and Treatment Guide" (《糖尿病腎病病症結合診療指南》) and the "First Prize of Science and Technology Award of the Society of Chinese Integrative Medicine in 2022". The Kidney Repair and Edema Alleviation Granules has effects of raising Yang and tonifying the spleen, transforming renal dampness and inducing diuresis

to alleviate edema, which achieved approximately RMB0.07 billion of sales revenue in 2022 with an increase of approximately 31.1% year on year. Combined with the Uremic Clearance Granules, we will leverage the advantages of Chinese medicine in the treatment of chronic kidney disease and provide Chinese solutions for the global prevention and treatment of kidney disease.

2) Sales revenue of medical contrast medium was approximately RMB0.16 billion in 2022, representing a year-on-year increase of 16.1%. In 2022, as contrast medium products were gradually included in national centralized procurement, we took the below measures: firstly, accelerate the progress of consistency evaluation of gadolinium medium and iodine medium; secondly, strengthen academic cooperation with public hospitals to seize the market share of public hospitals beyond centralized quantity procurement, at the same time, step up the promotion and expand the coverage in private hospitals; finally, introducing new products through research and development and active cooperation with external parties to improve the Company's production chains.

3) Sales revenue of gynaecology and paediatrics drugs was approximately RMB0.24 billion in 2022, representing a year-on-year increase of 16.3%. With good taste, high safety and catalog access, Yuanlikang (源力康) (Iron-dextrin Oral Solution) is listed in category B of the national reimbursement drug list (2020 version), National List of Essential Medicines (2018 version) and IDA Clinical Pathway Recommended Drug (county level). In 2022, we focused on promotion of 10ML large-size product conversion to speed up the mass promotion of conversion for undeveloped hospital clients and improve volume for developed hospital clients, showing double-fast characteristics of fast recovery and fast growth, which laid a solid foundation for the Company's performance in 2022 and beyond.

2. The Yulin Pharmaceutical Segment recorded sales revenue of approximately RMB0.36 billion, representing a year-on-year increase of approximately 15.1% and profit of approximately RMB0.03 billion before fair value adjustment arising from acquisition of Yulin Pharmaceutical Segment. We have achieved a profit for two consecutive years after restructuring and reorganization with an effective result. The OTC marketing team adhered to the three-pronged approach of "speaking for the brand, pipeline empowerment and terminal sales" to speed up promotions from several aspects. For branding, we continue to maintain a precise multimedia combination of publicity strategy to ensure advertising for a certain amount of brand and product. Meanwhile, we will launch targeted activities for public relations and event promotion.

   In terms of channel construction, we continue to control the channel order and price system, actively explore the medical market and optimize the distributor network; in terms of terminal sales, we (1) focus on core customers and strengthen strategic cooperation with large chains; (2) focus on core terminals and promote classification and grading management; (3) enhance consumer experience through roadshows, charity clinics and other activities to drive pure sales increment at the terminal; (4) for different product lines, we also take targeted measures, for example, the hepatobiliary department is a relatively rigid demand category, Jigucao Capsules (雞骨草膠囊) was also included in the Medical Insurance Catalogue in Shandong Province (other provinces are also stepping up efforts to promote medical insurance admission) after the national negotiation. Clinical promotion is gradually on the track, there is no doubt about the sustainable growth of hospital market with a broad future.

3. The new retail segment continued to make efforts, and multi-channel marketing achieved results. From 2019 to 2022, after four years of marketing efforts, Consun Pharmaceutical's new retail has been boosting against the trend with an exciting performance. After the new retail team adjusted its marketing strategy from "official platform as the main focus and channels as a supplement" to "official platform, self-operating, frontline, vertical, and expansion", the bright results of "Double 11" fully proved the effectiveness of the new marketing strategy.

4. For the admission of drug catalogues, our products that entered the National Medical Insurance Catalogue (《國家醫保目錄》) (NMC) in 2021, such as Pain-relieving Antidiarrheal Capsules (緩痛止瀉軟膠囊) and Jigucao Capsules (雞骨草膠囊) have been successfully renewed in the 2022 NMC. Consun Pharmaceutical's Alfacalcidol Capsules (阿法骨化醇膠囊) has been removed from the medical insurance restrictions compared with 2021 edition. At the same time, we have completed registration of the Uremic Clearance Granules (尿毒清顆粒) and Shiduqing Granules (濕毒清顆粒) in Indonesia, Loquat Syrup for Cough (治咳枇杷露) in Burkina Faso, and Gold Zheng Gu Shui (金裝正骨水) in the United States.

II. Results and Progress of R&D and Innovation

The Group's R&D center puts focus on independent R&D of traditional Chinese medicine and aided by external institutions. We attach equal importance on independent R&D of chemical drugs and joint external R&D. Biological drugs team participates in the R&D institutions to carry out strategic research work. We make new progress in independent R&D, explore new opportunities in cooperative R&D, and strive to forge ahead from provincial to national level in R&D platform and aim at the international standard. Currently, we mainly focus on "1+6" product lines to rapidly increase the number of products to form a product portfolio, and deploy the layout of new product development in the next 10 years. In 2022, we received awards and made progress in R&D activities as follows:

1. First Prize of Science and Technology Award of the Society of Chinese Integrative Medicine in 2022

In December 2022, the project "Innovative New Strategy and Translational Application of Integrated Chinese and Western Medical Treatment for Diabetic Nephropathy" (《創新糖尿病腎病中西醫結合診療新策略與轉化應用》), led by the General Hospital of the Chinese People's Liberation Army, with the participation of Dongzhimen Hospital of Beijing University of Traditional Chinese Medicine and Consun Pharmaceutical, was awarded the "First Prize of Science and Technology Award of the Society of Chinese Integrative Medicine in 2022". As a participant of the project, Consun Pharmaceutical developed the Kidney Repair and Edema Alleviation Granules, a national innovative drug with the efficacy of raising Yang and tonifying the spleen, transforming renal dampness and inducing diuresis to alleviate edema, which was awarded the national invention patent and new drug certificate. The pre-registration RCT (Randamized Controlled Trial) study and post-registration clinical observation confirmed the safety and efficacy of the Kidney Repair and Edema Alleviation Granules. Its mechanism in the treatment of chronic kidney disease was initially explored through basic research, and the breeding of large varieties and industrialization have been realized.

2. The open project of Kidney Repair and Edema Alleviation has achieved milestone results

Following the national strategy of traditional Chinese medicine development, Consun Pharmaceutical Group financed the inception of the "Kidney Repair and Edema Alleviation Clinical Application Research and Basic Research Open Project" in the Kidney Disease Committee of the Society of Chinese Integrative Medicine in 2019. The project will be open for recruitment of professional researchers to explore the clinical efficacy and treatment mechanism of the Kidney Repair and Edema Alleviation Granules by modern pharmacology and evidence-based medicine, in order to exploit the advantages of Chinese medicine in the treatment of chronic kidney disease and provide Chinese solutions for the global prevention and treatment of kidney disease. Among them, Zhejiang Provincial People's Hospital conducted a study on the efficacy and treatment mechanism of the Kidney Repair and Edema Alleviation Granules in the treatment of diabetic nephropathy. The experimental results showed that the Kidney Repair and Edema Alleviation Granules significantly improved kidney function, reduced urinary protein, improved glomerular lesions, and reduced podocyte apoptosis in glycogenic kidney model animals; Nantong University Hospital also conducted a study on the efficacy and treatment mechanism of the Kidney Repair and Edema Alleviation Granules in the treatment of focal segmental glomerulosclerosis (FSGS) through network pharmacology and molecular biology research methods, etc.

Both of the recent research results have been published in the SCI-indexed journal "Frontiers in Pharmacology".

3. Yulin Pharmaceutical's Jigucao Capsules for the Treatment of Hepatitis B: Research Results in the Journal of Hepatology International

Yulin Pharmaceutical's star product "Jigucao Capsules" for the treatment of hepatitis B was first published in "Hepatology International", the official journal of the Asia Pacific Association for the Study of the Liver (APASL) (2022 Impact Factor/JCR partition: 9.029/Q1) (The Asia Pacific Association for the Study of the Liver (APASL) is one of the world's leading associations dedicated to the study and treatment of liver disease, and is the largest scientific body for research and improved treatment of liver diseases in the Asia-Pacific region.)

The study explored the compound composition of "Jigucao Capsule" to clarify the material basis of "Jigucao Capsule", evaluated the efficacy of "Jigucao Capsule" in the treatment of hepatitis B through internal and external antiviral experiments and explored the treatment mechanism of "Jigucao Capsule" in the treatment of hepatitis B through network pharmacology and molecular biology studies.

As a proprietary Chinese patent medicine manufactured by Yulin Pharmaceutical with independent intellectual property rights, "Jigucao Capsules" is the first choice for the treatment of acute and chronic hepatitis and cholecystitis (referring to the patients with liver and gallbladder damp-heat). "Jigucao Capsules" can significantly reduce the index value of liver function damage caused by acute and chronic hepatitis and cholecystitis (referring to the patients with liver and gallbladder damp-heat), such as elevated ALT (穀丙轉氨酶). It has a relatively strong effect of liver protection. Compared with similar products in the PRC, "Jigucao Capsules" has obvious competitive advantages with a good overall efficacy, fast improvement of clinical symptoms, low dosage, easy to swallow, fast disintegration, and high bioavailability of active ingredients in human body.

4. *Continuously promote the cooperation with WuXi AppTec and Brilliant Pharmaceutical in research and development*

We are collaborating with WuXi AppTec to develop innovative small molecule drugs primarily for the treatment of nephropathy and its complications, and may subsequently expand to other innovative drugs for other diseases. We are currently working on three drugs. We are collaborating with Brilliant Pharmaceutical in the R&D and filing of active pharmaceutical ingredients (API) and formulations and market development of contrast medium series. In the production stage, Consun Pharmaceutical will be responsible for the production of contrast medium preparation, and Brilliant Pharmaceutical will be the preferred supplier of contrast APIs for Consun Pharmaceutical, which specific cooperation projects are in progress steadily.

III. Strategic Measures

1. *Xinjiang Horgos Production Base Put into Operation, Completing the Group's Industrial Layout*

The Horgos base has completed the construction of the first fully automated production line for Chinese patent medicine granules after nearly a year of careful construction, overcoming unfavorable conditions such as epidemic control and construction difficulties in winter. It was officially put into trial production on June 18, 2022, which will make a positive contribution to the economic development and industrial cluster effect of Horgos. The successful completion and commissioning of the first phase of Consun Pharmaceutical's Horgos project marks the completion of the layout of Consun Pharmaceutical's four strategic industrial bases covering the whole country. It is a concrete manifestation of Consun's Pharmaceutical efforts to seize the opportunity and initiative to integrate its development into the national "One Belt, One Road" construction. While making full use of the cost advantage of rich Chinese herbal resources in the northwest region, especially in the Yili Valley (伊黎河谷) and the countries along the "Belt and Road" in Central Asia, we are vigorously developing the potential market for kidney disease patients in five Central Asian countries and promoting Chinese medicine to the world.

2. *Completed the deregistration of Inner Mongolia Kangyuan Pharmaceutical Co.*

At present, the Company has successfully completed the merger of Inner Mongolia Kangyuan by Inner Mongolia Consun and the deregistration of Inner Mongolia Kangyuan. After completion of the registration, Inner Mongolia Consun inherited all the products, assets and liabilities of Inner Mongolia Kangyuan in accordance with the statutory procedures. The completion of this merger makes the management of the Inner Mongolia base more intensive, which is conducive to the integration of resources within the enterprise, the reduction of enterprise management overlap within the Group, the decrease of management and transaction costs, the reduction of connected relationship among transactions, and the full play of the economies of scale and synergy effect. The Group's overall advantages in personnel, technology, products and management can be exploited to improve the operational efficiency of the enterprise, increase the concentration of the industry, enhance the Company's ability to resist risks and maximize the interests of shareholders.

3. *Chronic disease management platform is gradually under development*

In China, the prevalence of chronic kidney diseases in the adult population is as high as 10.8% and the number of patients has exceeded 132 million, which means that there is one kidney disease patient in every 10 people. Chronic kidney disease is also known as the "silent killer" because of its high incidence, high mortality, irreversibility, and occurrence in people of all ages, which ranks as the top chronic disease. There are many people suffering from chronic kidney disease. With more than 20 years of experience in the field of kidney diseases, Consun Pharmaceutical has a profound understanding of the difficult problem of how to slow down the progress of kidney diseases. As a leader in the field of nephrology, we believe that delaying the progression of kidney diseases is as important as out-of-hospital care and hospital treatment. At present, there are many deficiencies in the traditional chronic disease management mode, such as patient's lack of chronic disease prevention knowledge, lack of professional chronic disease management guidance, and poor compliance. The online clinic, health management, and value-added services provided by the Internet platform can precisely solve the deficiencies of traditional chronic disease management, allowing patients to enjoy multi-faceted out-of-hospital care while being treated in the hospital.

Based on the above insight, the Chronic Disease Management Center of Consun Pharmaceutical Group has launched the "Blue Ribbon – Public Welfare Chronic Disease Management (藍絲帶•公益慢病管理)" project for three consecutive years since its establishment, setting up the rules for the activity of applying for and collection of free medication with testimonials to fully utilize the advantages of online patient education and chronic disease management of the Chronic Disease Management Center. To date, the project has attracted more than 15,000 patients, which has accumulated more evidence for the expansion of the efficacy of Uremic Clearance and has provided information base of big data for future research on kidney disease drugs.

4. *Cultivating Strengths Internally with Diligence to Lay Solid Foundation*

The competitiveness of an enterprise is mainly derived from internal sources, and internal factors are decisive, while there is always room for improvement in internal management. In order to improve the core competitiveness of Consun Pharmaceutical, we have to cultivate our strengths internally. In 2022, we further promoted and deepened the refined management launched in 2021, and implemented "the establishment of qualification standards and skills assessment (任職資格標準建立及技能測評)" in each base and functional department. This, through the "test and practice, test instead of training (測戰並重、以測代訓)" on the on-site staff practicing the steps of the process, production and management modes, gave comprehensive and impartial comments and recommendations, and helped staff in the subsequent work to continuously optimize the improvement. It also helped them to identify the deficiencies and direction of management, and to summarize and procure the improvement of operational efficiency through the monthly report of system procedure operation. In addition, we will accelerate the optimization of the corporate governance structure and further improve the incentive mechanism, so that employees are always in good morale and the mechanism is always effective, which is the highlight and advantage of Consun Pharmaceutical.

IV. Brand Building and Shareholder Returns

1. Consun Pharmaceutical was ranked among the top 30 on the "China's TOP 100 Chinese Medicine Enterprises List"

In July 2022, the 2021 China Pharmaceutical Industry Top 100 List was released, and Consun Pharmaceutical Group was ranked 29th in the "2021 China Top 100 Chinese Medicine Enterprises List" by its outstanding brand publicity and unique value of products. The Company's flagship product, Uremic Clearance Granules, has been ranked on the "China Medicine – Brand List" "Hospital Terminal" list for six consecutive years with its excellent market performance. The star product of Consun Yulin Pharmaceutical, Shiduqing Capsule, has also been ranked on the "China Medicine – Brand List" "Retail Terminal" list for many years in a row. By winning a number of prestigious industry awards, Consun's Pharmaceutical strong innovative ability and professional academic promotion capability are fully demonstrated.

2. Consun Pharmaceutical was ranked on the "China Brand Value Evaluation List" with a brand value of RMB6.416 billion

In September 2022, the "2022 China Brand Value Evaluation Information" list was released, and Consun Pharmaceutical was ranked 12th in the pharmaceutical and health category with a brand strength of 849 and a brand value of RMB6.416 billion, up RMB1.432 billion from 2021. Consun Yulin Pharmaceutical was ranked 19th in the List of Chinese Time-honored Brands, with a brand strength of 821 and a brand value of RMB1.2 billion. Consun Pharmaceutical and Consun Yulin Pharmaceutical were both listed on the "2022 China Brand Value Evaluation List" once again, demonstrating the excellent comprehensive strength and brand influence of Consun Pharmaceutical Group.

3. Consun Pharmaceutical was ranked on the "Top 50 Chinese Patent Drug Companies with Comprehensive Competitiveness in 2022"

In November 2022, CHI Index – Top 50 Overall Competitiveness of Chinese Patent Drugs in 2022 and Top Health Industry Brands in 2022 were released. With its strong R&D strength and excellent market performance, Consun Pharmaceutical was honored as one of the Top 50 Comprehensive Competitiveness of Chinese Patent Drugs in 2022 and its flagship product, UCG, was again honored as one of the Top Health Industry Brands in 2022, demonstrating the strong overall competitiveness of Consun Pharmaceutical.

With more than 20 years of experience in the pharmaceutical industry, Consun Pharmaceutical has become a leader in the Chinese nephrology market. It was listed on the "Top 50 Comprehensive Competitiveness of Chinese Patent Drugs" list, once again demonstrating our overall competitiveness.

4. Consun Pharmaceutical Group was awarded the "2022 ESG Practice Model Award"

In December 2022, the 12th China Charity Festival was held in Shanghai. With its continuous efforts and outstanding performance in the field of public welfare, Consun Pharmaceutical Group was awarded the "2022 ESG Practice Model Award". Consun Pharmaceutical has received numerous awards in the field of philanthropy, and has participated in a number of philanthropic festivals for many years.

5. Yulin Pharmaceutical obtained TGA certification in Australia

In July 2022, Yulin Pharmaceutical was awarded GMP certification by the TGA in Australia, covering the pharmaceutical manufacturing processes at both the Consun Yulin Pharmaceutical headquarters and Renhou (仁厚) sites. This signifies that all registered products of Yulin Pharmaceutical may be legally sold in Australia.

TGA certification is a certificate of registration issued by the Australian government and is renowned worldwide. Export of medical supplies to Australia must obtain TGA certification. The successful completion of the Australian TGA certification demonstrates the hardcore strength of Yulin Pharmaceutical products. The Company is now focusing on Yulin Pharmaceutical products and expanding its international presence, with a focus on promoting Yulin's OTC products (such as Zheng Gu Shui 正骨水) that are already well known in Southeast Asia and other countries, which will help accelerate its development in the international market.

6. Dividend

In order to recognize the full support of all shareholders, the Board of the Company proposed to pay a final dividend of HKD0.3 per share for the year ended 31 December 2022, representing approximately 30.5% of profit for the year.

V. Outlook

At the end of 2022, the three-year pandemic finally came to an end and the post-pandemic era has truly arrived. Having weathered the challenge of the COVID-19 pandemic, the demand for health has never been stronger, which will certainly become a new momentum for the development of the pharmaceutical industry. In the next few years, the pharmaceutical and healthcare industry will continue to grow under the support from three major growth drivers: 1. Demand side: ageing population and consumption upgrade; 2. Policy side: As an industry closely linked to people's livelihood, the pharmaceutical industry will receive encouragement from government's policies, in particular the development of Chinese medicines. Meanwhile, under the structural differentiation of medical insurance payment control, products with proven efficacy supported by clinical evidence will enjoy more benefits from the policies; 3. Supply side: The supply-side reform that involve a series of actions including centralized procurement will promote the resources consolidation of the industry under the principle of "survival of the fittest". Hence, companies with core major products and strong cash flows, especially listed companies, will continue the previous trend of the strong growing stronger.

The year 2023 is the first year after the successful convening of the "20th National Congress" and high-quality development has become the top priority in the economic development of the country. The Group will also seize the trends of and opportunities arising from the economic development to optimize its business layout and promote its business development. The Group will continue to consolidate its leading position in nephrology, strengthen and further consolidate the synergy between UCG and Kidney Repair and Edema Alleviation Granules, continue to expand the product line of gynaecology and paediatrics drugs, strengthen the product line of imaging, cultivate the gastroenterology products and achieve breakthrough in OTC. It will also continue to push ahead with R&D and innovation upgrade, enhance the level of protection for the supply chain, improve the professional capabilities of the workforce and develop a future-oriented information system, so as to propel the business and management of the Group to the next level in full steam.

The year 2023 also marks the first year of the official implementation of centralized procurement price for Uremic Clearance Granules (尿毒清顆粒), which is the Group's main product, in certain regions. It is expected that, despite the increasing pressure on adoption of centralized procurement, the polices relating to centralized procurement are becoming more stable and more certain, which should be favourable to pharmaceutical companies that adhere to the guidance of the national policies such as Chinese medicine enterprise like Consun Pharmaceutical in the long-run. On the one hand, the Group will actively participate in the centralized procurement of Chinese medicines and strive to maintain the pricing system. At the same time, it will gradually explore the response mechanism and strategy for marketing after the normalization of centralized procurement of UCG with a focus on regions and hospitals not yet covered by our business, so as to fully unleash their potentials and ensure stable development after adopting centralized procurement and further increase the market share. On the other hand, the Group will properly carry out works in relation to curbing costs and enhancing effectiveness and implement a series of optimization and improvement measures in terms of production, logistics, management and cost of sales to ensure continuous and stable growth of profits.

Quoted the famous philosopher Nietzsche: "There is no miracle in this world. If there is real miracle in the world, that's only an alias of hardworking." In the face of the world's major changes unseen in a century and amidst the recovery and growing trend of the pharmaceutical industry, Consun Pharmaceutical will work harder and harder to reward the support of investors with sustainable, stable and high-quality growth in its results.

An Meng
Chairman

Hong Kong, 23 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the year of 2022, the Group's revenue was RMB2,339,650,000, representing an increase of approximately 14.4% as compared with RMB2,044,660,000 for 2021. Categorized by product lines, sales of kidney medicines recorded an increase of approximately 15.0% as compared with last year, among which, Uremic Clearance Granules ("**UCG**") remained the Group's key product and maintained its leading position in the market; sales of medical contrast medium recorded an increase of approximately 16.1% as compared with last year, and still maintained a leading position in the domestic medical contrast medium market for magnetic resonance imaging; sales of orthopaedics medicines recorded an increase of approximately 53.1%; sales of dermatologic medicines recorded an increase of approximately 5.7%; sales of hepatobiliary medicines recorded a decrease of approximately 31.3%; sales of the gynaecology and paediatrics drugs recorded an increase of approximately 16.3%. The increase in overall sales revenue was mainly due to the Group's constant commitment to expanding product markets and developing sales network across China.

Gross Profit and Gross Profit Margin

For the year of 2022, the Group's gross profit was RMB1,762,912,000, representing an increase of approximately 15.4% as compared with RMB1,527,336,000 for 2021. The increase in gross profit was mainly attributable to the increase in sales. For the year of 2022, the Group's average gross profit margin was approximately 75.3%, representing an increase of 0.6% as compared with 74.7% for last year, which was mainly attributable to the management effort in maintaining selling prices and controlling production costs for the Group's products.

Other Income

For the year of 2022, the Group's other income was RMB56,385,000 which mainly included government grants, interest income and net exchange loss. Compared with RMB63,384,000 for 2021, the decrease was mainly due to net foreign exchange losses related to Hong Kong dollar loans arising from the depreciation of Renminbi, while in 2021, net foreign exchange gains arising from the appreciation of Renminbi was recorded.

Distribution Costs

For the year of 2022, the Group's distribution costs were RMB771,960,000, representing an increase of approximately 24.5% as compared with RMB620,041,000 for 2021. The increase in distribution costs was mainly due to increased marketing and academic promotion campaigns to expand the marketing and distribution networks.

Administrative Expenses

For the year of 2022, the Group's administrative expenses were RMB322,504,000, representing an increase of approximately 15.2% as compared with RMB279,956,000 for 2021. The increase in administrative expenses was attributable to the increase in research and development expenses and staff costs during the year.

Reversals of Impairment Loss on Trade and Other Receivables

For the year of 2022, the Group's reversals of impairment loss on trade and other receivables were RMB32,493,000 as compared to RMB18,043,000 for 2021, the change was mainly due to enhanced management on trade debtors and the decrease in the gross carrying amount of trade receivables past due.

Finance Costs

For the year of 2022, the Group's finance costs were RMB10,933,000, representing a decrease of approximately 15.3% as compared with RMB12,905,000 for 2021, which was mainly due to the decrease in discounted bills during the year.

Income Tax

For the year of 2022, the Group's income tax expenses were RMB62,696,000, representing a decrease of approximately 42.3% as compared with RMB108,744,000 for 2021. The effective tax rate (income tax expenses divided by profit before taxation) decreased by approximately 7.2% from 15.6% for 2021 to 8.4% for 2022. The decrease was mainly due to the preferential income tax relief and exemption policies enjoyed by Horgos Consun in 2022.

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

For the year of 2022, the Group's annual profit attributable to equity shareholders of the Company was RMB682,907,000, representing an increase of approximately 15.7% as compared with RMB590,172,000 for 2021. The basic earnings per share increased by approximately 16.2% from RMB0.74 for 2021 to RMB0.86 for 2022. The diluted earnings per share increased by approximately 17.8% from RMB0.73 for 2021 to RMB0.86 for 2022.

LIQUIDITY AND FINANCIAL RESOURCES

Trade Debtors and Bills Receivable

As at 31 December 2022, the balance of trade debtors and bills receivable was RMB259,562,000, representing a decrease of approximately 26.1% as compared with the balance of RMB351,226,000 as at 31 December 2021. Trade receivables turnover days for 2022 were 47.6 days, decreased by 23.8 days from 71.4 days for 2021, which was mainly due to enhanced management in trade debtors.

Inventories

As at 31 December 2022, the balance of inventories was RMB276,080,000, representing an increase of approximately 13.6% as compared with the balance of RMB243,035,000 as at 31 December 2021. Inventory turnover days for 2022 were 164.3 days, decreased by 1.6 days from 165.9 days for 2021, which was mainly due to the enhanced management in inventories during the year.

Trade Payables

As at 31 December 2022, the balance of trade payables was RMB59,891,000, representing a decrease of approximately 10.1% as compared with the balance of RMB66,638,000 as at 31 December 2021. Trade payables turnover days for 2022 were 40.0 days, decreased by 1.5 days from 41.5 days for 2021, which remained stable.

Cash Flows

For the year of 2022, the Group's net cash generated from operating activities was RMB947,679,000, representing an increase of approximately 30.6% as compared with RMB725,537,000 for 2021, which was mainly attributable to the increase in sales and the decrease in the payment of tax expenses. For the year of 2022, the Group's net cash used in investing activities was RMB368,804,000, representing an increase of approximately 23.6% as compared with RMB298,305,000 for 2021, which was mainly due to the increase in wealth management products of certificates of large-sum deposit issued by the bank. For the year of 2022, the Group's net cash used in financing activities was RMB342,205,000, representing an increase of approximately 105.3% as compared with the net cash used in financing activities of RMB166,659,000 for 2021, which was mainly due to partial repayment of principal and interest on bank loans during the year.

Cash and Bank Balances and Borrowings

As at 31 December 2022, the Group's cash and bank balances, which were mainly denominated in RMB and HKD, were RMB2,450,173,000, representing an increase of approximately 11.6% as compared with RMB2,196,323,000 as at 31 December 2021. At 31 December 2022, the Group's banking facilities amounted to RMB1,459,975,000 (2021: RMB1,008,480,000) were utilised to the extent of RMB450,521,000 (2021: RMB599,302,000). As at 31 December 2022, the Group's total loans and borrowings were RMB450,521,000, which were mainly denominated in RMB and HKD, repayable within 1 year or on demand and RMB120,000,000 of which were fixed rate borrowings with interest rate ranging from 0.65% to 3.65%, representing a decrease of approximately 24.8% as compared with RMB599,302,000 as at 31 December 2021 (mainly denominated in RMB and HKD, repayable within 1 year or on demand and RMB321,318,000 of which were fixed rate borrowings with interest rate ranging from 0.70% to 4.10%), which was mainly due to partial repayment of principal on bank loans during the year. There were no material seasonality of a borrowing requirements for the Group.

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 2022. 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.

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 2022 was 14.3% (31 December 2021: 22.9%). The decrease in gearing ratio was mainly due to the decrease in bank borrowings and the increase in total equity attributable to equity shareholders as a result of the increase in operating profit 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 2022, the Company issued 866,608 ordinary shares pursuant to employees' exercise of share options granted under the Share Option Scheme (adopted on 2 December 2013) (2021: 4,593,118 ordinary shares).

In 2022, the Company repurchased 7,996,000 shares (2021: 10,115,000 shares) of its own ordinary shares through the Stock Exchange at a total consideration of approximately HKD34,944,000 (approximately RMB29,066,000) and all of these repurchased shares were cancelled at the end of the year.

Save as disclosed above, there were no significant changes in the Company's capital structure. The Company's capital comprises ordinary shares and other reserves.

CAPITAL COMMITMENTS

As at 31 December 2022, the Group had capital commitments of approximately RMB450,758,000 (31 December 2021: RMB482,495,000).

INFORMATION ON EMPLOYEES

As at 31 December 2022, the Group hired a total of 3,009 employees (31 December 2021: 2,768 employees). The total staff costs (including the directors' remuneration) for the year ended 31 December 2022 was RMB445,669,000 (2021: RMB365,996,000). The salaries of the employees were determined with reference to individual performance, work experience, qualification and current industry practices.

On top of basic salaries, bonus is payable by reference to the Group's performance as well as individual's performance. Other staff benefits include contributions to Mandatory Provident Fund in Hong Kong and various retirement benefits schemes and other relevant insurance, including pension funds, medical insurance and unemployment insurance for employees who are employed by our Group pursuant to the PRC rules and regulations and the prevailing regulatory requirements of the PRC. Save as disclosed above, the Group has not set up or participated in any other pension scheme(s). 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 Group 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 2022, 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 2022.

PLEDGE OF ASSETS

As at 31 December 2022, the Group did not have any pledge of assets (31 December 2021: RMB2,500,000).

CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any material contingent liabilities (31 December 2021: Nil).

PRINCIPAL RISKS AND UNCERTAINTIES

Management continues to manage the Group's key risk exposures, including operational risks (e.g. ensuring high quality of medicine 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 relevant policies of the Group 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 2022, there was no incidence of significant non-compliance of laws and regulations that is relevant to the Group's operations.

KEY INDUSTRY POLICIES AND IMPLICATIONS

1. Adjustment of National Medical Insurance Catalogue

On January 18, 2023, the Drug Catalogue for National Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2022) (hereinafter referred to as the "**National Medical Insurance Catalogue**") was issued, which would officially implement the inclusion of 2,967 types of western and Chinese Patent Drugs, including 1,586 types of western medicines and 1,381 types of Chinese Patent Drugs from March 1, 2023. The notice requires all provinces, autonomous regions and municipalities directly under the Centralized Drug Purchasing Organization to directly list the negotiated drugs on the provincial centralized drug procurement platform by the end of February 2023. A total of 67 drugs of the Group were included in the 2022 National Medical Insurance Catalogue, among which two exclusive Chinese Patent Drugs (Jigucao Capsules and Painrelieving Antidiarrheal Capsules) are national negotiated drugs.

The notice requires the continuation of the requirements of the Guiding Opinions on Establishing and Improving the "Dual-Channel" Management Mechanism for Negotiated Medicines under the National Medical Insurance and the Notice on Continuing to Implement Negotiated Medicines in Response to the Normalized National Medical Insurance Negotiations (《關於適應國家醫保談判常態化持續做好談判藥品落地工作的通知》) in 2021 to enhance the standardization and refinement of the "Dual Channel" work, and standardize the access procedures for "Dual-Channel" pharmacies and further enhance the coverage of "Dual-Channel" pharmacies in rural areas, remote areas and economically underdeveloped areas. By December 31, 2023, each province will rely on the nationally unified electronic prescription center of the medical insurance information platform to realize the electronic flow of prescriptions for "Dual-Channel" within the provincial territory. The "Dual-Channel" drug management mechanism will be fully utilized to expand the pipeline of medication for insured patients to designated retail pharmacies and better protect the needs of the insured population for medication. This will help the Group to broaden the pipeline of our nationally negotiated drugs and enhance accessibility.

2. Centralized Quantity Procurement Policy of the State

As of March 2023, the State has completed seven batches of centralized quantity procurement of drugs and started the eighth batch of drug information filling; on January 10, 2022, the State Council Standing Committee decided to normalize and institutionalize centralized quantity procurement of drugs and high-value medical consumables. Several major notices and reports such as the Report on the Work of the Government and the key tasks, The Office of the State Council on the Issuance of the Notice of the "14th Five-Year Plan" National Health Plan (《國務院辦公廳關於印發「十四五」國民健康規劃的通知》) and the Notice of the Office of the State Council on Issuing the Key Tasks of Deepening the Reform of the Medical and Health System in 2022 (《國務院辦公廳關於印發深化醫藥衛生體制改革2022年重點工作任務的通知》), have all set out the requirements for the implementation of centralized quantity procurement, promoting the normalization and institutionalization of centralized quantity procurement and accelerating its expansion.

The Group's iopamidol injection was included in the seventh batch of Catalog of Centralized Quantity procurement of Drugs and the application for registration of consistency evaluation of this product has been accepted. Being aware of the trend of accelerating and expanding the scope of centralized procurement, the Group has well deployed, 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.

3. The Heritage and Innovative Development of Traditional Chinese Medicine Supported by the State with a Promising Future

The State has released a number of planning documents, including the 14th Five-Year Plan for the Development of Chinese Medicine (《「十四五」中醫藥發展規劃》) and the Plan for Promoting the High-Quality Integration of Chinese Medicine into the "Belt and Road" Development Plan (2021-2025) (《推進中醫藥高品質融入共建「一帶一路」發展規劃(2021-2025 年)》), which have elevated the strategic status of medicine.

Among them, the Office of the State Council has issued a comprehensive, strategic and protective plan for the development of Chinese medicine, which is also an agenda document for the 14th Five-Year Plan period to implement the decisions and plans of the Party Central Committee and the State Council on Chinese medicine and promote the revitalization and development of Chinese medicine. During the 14th Five-Year Plan period, the development of Chinese medicine has entered a new stage of heritage and innovation. With the support of more and more policies in the future, Chinese medicine industry will continue to develop in the direction of standardization and internationalization.

In January and February 2023, the National Medical Products Administration issued Several Measures to Further Strengthen Scientific Supervision of Chinese Medicine and Promote the Development of Chinese Medicine Heritage and Innovation (《進一步加強中藥科學監管促進中藥傳承創新發展若干措施》) and Special Regulations on the Management of Chinese Medicine Registration (《中藥註冊管理專門規定》) to further strengthen the scientific supervision requirements of Chinese medicine, enhance the research and registration management of new Chinese medicine, and promote the development of Chinese medicine heritage and innovation. Under the continuous promotion of the policies, the strategic status of Chinese medicine has been continuously enhanced, and the industry has witnessed vigorous growth.

OTHER INFORMATION

Corporate Governance

The Group's business philosophy is "Based on principal, founded on morality, achieving benefits while prioritizing righteousness", among which, the value of "achieving benefits while prioritizing rightness" is a very important component. We insist and emphasize on the priority of righteousness in our operations, and gain benefits from our righteous and ethical actions, while never take any benefits from unrighteous actions. Righteousness and benefits are inseparable. Neither can organizations nor individuals would survive and develop without economic benefits, but when conflicts happen between righteousness and benefits, we always prioritize righteousness and achieve a win-win situation that we can pursue righteousness and economic benefits at the same time.

Adapting and adhering to recognised standards of corporate governance principles and practices is also the top priorities of the Company. The Board believes that good corporate governance could lead the Company to success and balance the interests of shareholders, customers and employees, and the Board is therefore devoted to ongoing reviews and enhancements of the efficiency and effectiveness of compliance with such principles and practices.

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 2022.

The Company has adopted and complied with the code provisions (the "**Code Provisions**") as set out in part 2 of Appendix 14, Corporate Governance Code, to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") during the year ended 31 December 2022.

Audit Committee

The Company has established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with paragraphs D.3.3 and D.3.7 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The responsibilities of the Audit Committee include but not limited to: (1) making recommendations to the Board on the appointment, re-appointment and removal of external auditor; (2) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; (3) to monitor integrity of the Company's financial statements and interim and annual reports, and to review significant financial reporting judgements contained in them; and (4) to monitor the Company's financial reporting system, risk management and internal control systems.

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 (Committee Chairlady), Mr. Feng Zhongshi and Mr. Su Yuanfu.

The Audit Committee has reviewed the Group's financial controls, risk management and internal control systems and discussed with management to ensure that management has performed its duty to have effective systems and has provided sufficient resources to financial reporting function and internal audit function. The Audit Committee has met with the external auditor to ensure the effectiveness of the audit process, and has reviewed this annual results announcement, including the Company's financial information contained in.

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 2022 as disclosed in this announcement have been compared by the Group's external 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.

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

During the year ended 31 December 2022, the Company repurchased 7,996,000 shares of its own ordinary shares through the Stock Exchange at a total consideration of approximately HKD34,944,000 (approximately RMB29,066,000), and 10,705,000 shares and 7,406,000 shares of repurchased shares were cancelled on 26 January 2022 and 23 June 2022 respectively, including 10,115,000 shares repurchased in 2021 and cancelled in 2022.

During the year ended 31 December 2022, the Company issued a total of 866,608 ordinary shares pursuant to employees' exercise of share options granted under the Share Option Scheme (adopted on 2 December 2013) at consideration ranging from HKD3.28 to HKD4.01 per share (aggregate consideration approximately: HKD3,171,000 (equivalent to approximately RMB2,638,000)). The weighted average closing price of the Company's shares immediately before the dates on which such share options were exercised is approximately HKD4.34.

Save as disclosed 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 2022.

Non-adjusting Events After the Reporting Period

After the end of the reporting period, the Directors proposed to declare a final dividend of HKD0.3 per share for the year ended 31 December 2022. Further details are disclosed in note 7 of this announcement. The proposed final dividend is subject to approval by the shareholders of the Company at the annual general meeting to be held on Wednesday, 31 May 2023 and, if approved, is expected to be paid on or about Wednesday, 21 June 2023 to shareholders whose names appear on the register of members of the Company on Friday, 9 June 2023. The final dividend is declared and will be paid in HKD.

After the end of the reporting period and up to the date of this announcement, the Company issued a total of 3,300 ordinary shares pursuant to employees' exercise of share options at consideration of HKD3.28 per share (aggregate consideration approximately: HKD11,000 (equivalent to approximately RMB9,000)). The weighted average closing price of the Company's shares immediately before the dates on which such share options were exercised is approximately HKD4.21.

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.

Annual General Meeting

The annual general meeting will be held on Wednesday, 31 May 2023. 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 Board proposed to declare a final dividend of HKD0.30 per share, totally approximately RMB208,065,000 for the year ended 31 December 2022 (2021 final dividend: HKD0.20 per share, totally approximately RMB128,691,000). The proposed final dividend is subject to approval by the shareholders of the Company at the annual general meeting to be held on Wednesday, 31 May 2023 and, if approved, is expected to be paid on or about Wednesday, 21 June 2023 to shareholders whose names appear on the register of members of the Company on Friday, 9 June 2023. 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 Wednesday, 31 May 2023, the Company's register of members will be closed from Thursday, 25 May 2023 to Wednesday, 31 May 2023 (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 Wednesday, 24 May 2023.

In addition, 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, for registration not later than 4:30 pm on Friday, 9 June 2023.

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 2022 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

Hong Kong, 23 March 2023

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 a non-executive Director; Mr. Su Yuanfu, Mr. Feng Zhongshi and Ms. Chen Yujun as independent non-executive Directors.

* *For identification purpose only*