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

*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock code: 1681)**

## **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO CONNECTED TRANSACTIONS**

References are made to the announcement of Consun Pharmaceutical Group Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) dated 20 February 2024 (the “**Announcement**”) in relation to the Transactions. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

As disclosed in the Announcement, it came to the attention of the Company that the Transactions between the Group and Zhuhai KTS and certain companies controlled by and associated to Mr. Xu and Ms. Li Qian, which constituted connected transactions of the Company, were conducted. However, the Company did not possess all information relating to the Transactions at the time and an internal investigation (the “**Internal Investigation**”) by the Investigation Committee with the assistance of the IFA and IC Consultant was conducted.

This announcement is published for the purpose of providing the Shareholders and potential investors of the Company with the following (i) supplemental information in relation to the KTS OS Transactions and KTS SC Transactions; (ii) key findings of the Internal Investigation; (iii) opinion by the IFA (the “**IFA Opinion**”); and (iv) key findings of the IC Report under the internal control review (the “**IC Review**”) by the IC Consultant.

### **INFORMATION IN RELATION TO KTS OS TRANSACTIONS AND KTS SC TRANSACTIONS**

As disclosed in the Announcement, based on the then information available, the transactions in relation to the Online Services Agreement (the “**KTS OS Transactions**”) and the procurement of skincare products from Zhuhai KTS (the “**KTS SC Transactions**”), constituted non-exempt connected transactions of the Company at the material time and subject to the announcement requirements under chapter 14A of the Listing Rules. The findings of the Internal Investigation were in line with the information disclosed in the Announcement.

Information relating to KTS OS Transactions and KTS SC Transactions is set out below.

## **KTS OS Transactions**

Principal terms of the Online Services Agreement are as follows:

- Date** : 7 January 2020 (as supplemented by the supplemental agreement dated 12 June 2020)
- Parties** : (i) Inner Mongolia Consun;  
(ii) Guangzhou Consun;  
(iii) Yulin Pharmaceutical (together with Inner Mongolia Consun and Guangzhou Consun as the “**Clients**”); and  
(iv) Zhuhai KTS (as service provider).
- Nature of the transaction** : Zhuhai KTS to provide marketing and promotional service to the Clients and Zhuhai KTS is responsible to carry out promotional activities on products of the Clients on e-commerce platform as designated by the Clients.
- Any alternation to the list of products of the Clients and the standard of the services fee shall separately agree by both parties and enter into supplemental agreement.
- Term of the agreement** : From 11 October 2019 to 30 September 2024
- Payment terms and pricing policy** : Upon the receipt of payment from the ultimate purchaser and the true and complete purchase voucher and sales flow document from the e-commerce platform, the Clients shall pay Zhuhai KTS the marketing and promotional service fee.
- Marketing and promotional service fee equals the quantity of products of the Clients sold to ultimate purchaser through the e-commerce platform times the services fee standard predetermined for each type of products as set by the Clients under the Online Services Agreement. The services fee standard was determined after taking into consideration the risk bore by Zhuhai KTS (being the contracting party with external service provider and be liable for all risk and responsibility) in taking up new market development and sales operation and the general administrative expenses incurred by Zhuhai KTS in the course of relevant transaction.
- Zhuhai KTS shall provide VAT invoice to the Clients before any payment from the Clients to Zhuhai KTS.

**External deposit and management fee payment** : Inner Mongolia Consun shall prepay (i) RMB300,000 deposit to e-commerce platform Ali Health for business operation and Zhuhai KTS shall repay the same amount to Inner Mongolia Consun on or before 30 January 2021; and (ii) RMB100,000 and RMB56,000 deposit to e-commerce platform JD and PDD, respectively, and Zhuhai KTS shall repay the same amount to Inner Mongolia Consun on or before 30 June 2021.

Inner Mongolia Consun shall be responsible for the first-year management fee of RMB30,000 payable to e-commerce platform Ali Health and RMB12,000 payable to e-commerce platform JD. From the second year, Zhuhai KTS shall be responsible for payment of management fee.

Inner Mongolia Consun shall be responsible for services fee charged by e-commerce platform JD of RMB162,000 per year and services fee charged by e-commerce platform PDD of RMB439 per year.

All such payment shall pay to Zhuhai KTS from Inner Mongolia Consun and Zhuhai KTS shall pay the same to respective e-commerce platform.

Zhuhai KTS shall provide valid VAT invoice in respect of the management fee and other service fee and deposit receipt to the Clients.

### ***Historical transaction amount***

The total amount paid from the Group to Zhuhai KTS under the KTS OS Transactions for the three years ended 31 December 2022 amounted to RMB5,393,421, RMB240,318 and RMB38,889, respectively.

## ***Reasons for the KTS OS Transactions and basis of consideration***

In 2016, certain members of the management were interested in expanding the Group's business into the area of healthcare product and e-commerce and were exploring a cooperation with a Canadian health product company. As the Group had no practical experience with the operation of healthcare product and e-commerce businesses, Ms. Li Qian, as the then chief executive officer of the Company, who was responsible for strategy formulation and overall operation and management of the Group, considered that it was necessary to protect the Group's interest while exploring new business opportunity and should have maintained an effective risk prevention and control. As Mr. Xu (son of Ms. Li Qian who did not have any posts in the Group at the material time) is a citizen of Macau Special Administrative Region of the PRC, in the first quarter of 2017, the then manager of the Group's health management center department suggested Mr. Xu to set up a new holding company in Macau in order to enjoy certain tax exemption and benefits and the said holding company would in turn be interested in 99% of Zhuhai KTS. It was decided that Zhuhai KTS would act as the contracting party on behalf of the Group if the cooperation materialised. At that material time, due to oversight of the relevant Listing Rules, Ms. Li Qian, Mr. Xu and the then manager of the Group's health management center department were not aware of that the holding company and Zhuhai KTS were connected persons to the Company. The potential cooperation with the Canadian healthcare product company was terminated in November 2017. When the Group started the e-commerce business after a certain period of time, somehow the relevant staff members of the responsible departments kept the practice of developing the e-commerce business through Zhuhai KTS, which led to the non-compliance of the Listing Rules.

Based on the results of the Internal Investigation and the work performed by the IFA which is based on relevant information and documents provided to the IFA, the actual transactions occurred only within three years after the date of the agreement, the five years term under the agreement of the KTS OS Transactions, which was longer than the term requirement for continuing connected transaction as set out in Rule 14A.52 of the Listing Rules of not exceeding three years period. Other than the five years term under the agreement of the KTS OS Transaction, having considered that (i) the service fees standard under the KTS OS Transactions were determined after taking into consideration the risk bore by Zhuhai KTS (being the contracting party with external service provider and be liable for all risk and responsibility) in taking up new market development and sales operation and the general administrative expenses incurred by Zhuhai KTS in the course of relevant transaction and was in line with the normal business practice and factors considered in transactions with third parties independent of the Company and its connected persons (as defined under the Listing Rules), and after cross-checking the settlement report on the sales of the Group's products on e-commerce platforms which contained breakdown and calculations of the services fee charged by Zhuhai KTS, there was no major discrepancy on the calculations save as the amount charged by Zhuhai KTS was slightly higher than the services fee standard as it included the VAT tax incurred under the transactions by Zhuhai KTS; (ii) the KTS OS Transactions were genuinely conducted under the Group's ordinary course of business where the Group paid Zhuhai KTS the marketing and promotional service fee upon the receipt of payment from the ultimate purchaser, the true and complete purchase voucher and sales flow document from the e-commerce commerce platform pursuant to the agreement; (iii) there was no material evidence showing that Zhuhai KTS retained economic benefit under the KTS OS Transactions; and (iv) Zhuhai KTS did in fact transfer the e-commerce business to the Group at no costs in January 2023, the Investigation Committee, the Board and the IFA are of the view that the terms of the KTS OS Transactions were conducted on normal commercial terms, fair and reasonable and in the best interests of the Company and the Shareholders as a whole. On the above grounds, the Board is of the view that there was no misappropriation of the Company's resources.

## ***Listing Rules Implications***

As discussed in the paragraph headed “Information on Parties Involved – Zhuhai KTS” below, Zhuhai KTS was a connected person of the Company at material times, the KTS OS Transactions constituted continuing connected transaction of the Company under Chapter 14A of the Listing Rules.

As one or more applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the highest annual transaction amounts under the KTS OS Transactions were more than 0.1% but all of which are less than 5% at the material time, the transactions contemplated under the KTS OS Transactions would have been subject to the reporting, announcement and annual review requirements but are exempt from independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

## **KTS SC Transactions**

Principal terms of the relevant products purchase and sale contract are as follows:

<b>Date</b>	:	the agreement was not dated, but according to the Company’s record, the agreement should be entered into in around May 2020
<b>Parties</b>	:	(i) Yulin Pharmaceutical (as purchaser); and (ii) Zhuhai KTS (as seller).
<b>Nature of the transaction</b>	:	Zhuhai KTS to sell facial mask to Yulin Pharmaceutical.
<b>Consideration</b>	:	approximately RMB25.2 to RMB82.5 per unit  the Consideration was determined with reference to the retail price of the same product charged by ZMZ on its online store and the price range of the market retail price of similar skincare products.
<b>Total contract amount</b>	:	Batch 1: RMB704,640  Batch 2: RMB900,000
<b>Payment terms</b>	:	The purchaser shall pay the seller in advance.  The seller shall provide VAT invoice to the purchaser within 5 business days after purchaser accept the products

Based on information available, the procurement was divided into four batches. However, only the first and second batch procurements were supported by an written agreement. The third batch of skincare product procurement was skincare products with same unit price as the first batch and the second batch with the total consideration of RMB657,240. The fourth batch of skin care product procurement was skincare products with same unit price as the first batch and the second batch with the total consideration of RMB897,306.24.

### ***Historical transaction amount***

Based on information available, the Group purchased skincare products from Zhuhai KTS and the Group paid a total of RMB3,159,186.24 to Zhuhai KTS in 2020.

### ***Reasons for the KTS SC Transactions and basis of consideration***

The Group has given and distributed gifts and/or souvenir, such as thermos water bottle, small projectors and commemorative coins, to client for maintaining good relationships. The then sales representative of the Group considered it is more appropriate to source gifts and/or souvenir with a lower unit price at the material time, and considered than skincare products would be suitable gifts. In 2020, the Group purchased four batches of skincare products from Zhuhai KTS as gifts for its clients.

Based on the results of the Internal Investigation and the work performed by the IFA which is based on relevant information and documents provided to the IFA, having considered that (i) the unit price of the skincare products sold to the Group was substantially lower than the retail price of the same product charged by ZMZ on its online store and such unit price is within the price range of the market retail price of similar skincare products; (ii) the internal records (including internal accounting ledgers, VAT invoices, deliver note, procurement stock form and expenses application form) indicated that the KTS SC Transactions were genuinely conducted and the Group has had practice of giving and distributing gifts to its clients; and (iii) there was no material evidence showing that Zhuhai KTS retained economic benefit under the KTS SC Transactions, the Investigation Committee, the Board and the IFA are of the view that the terms of the KTS SC Transactions were conducted on normal commercial terms, fair and reasonable and in the best interests of the Company and the Shareholders as a whole. On the above grounds, the Board is of the view that there was no misappropriation of the Company's resources.

### ***Listing Rules Implications***

As discussed in the paragraph headed "Information on Parties Involved – Zhuhai KTS" below, Zhuhai KTS was a connected person of the Company at the material times, the KTS SC Transactions constituted connected transaction of the Company under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.81 of the Listing Rules, a series of connected transactions will be aggregated and treated as if they were one transaction if they were all entered into within a 12-month period or were otherwise related. Since the payments of the four batches of procurement under the KTS SC Transactions occurred within a 12-month period, the transaction amount of the four batches of procurement should be aggregated.

As one or more applicable percentage ratios calculated under Rule 14.07 of the Listing Rules in respect of the KTS SC Transactions were less than 5% but the total consideration exceeded HK\$3,000,000 at the material time, the KTS SC Transactions were subject to the announcement and annual reporting requirements under Rules 14A.35 and 14A.49 of the Listing Rules and exempt from the circular and independent shareholders' approval requirements under the Listing Rules.

## **Information on Parties Involved**

### ***The Group***

The Group is principally engaged in the manufacture and sale of pharmaceuticals and research and development of pharmaceutical products. The pharmaceutical products of the Company include kidney medicines, contrast medium and others. The Group has two reportable segments, (i) Consun pharmaceutical segment which manufactures and sells modern Chinese medicines and medical contrast medium; and (ii) Yulin pharmaceutical segment which manufactures and sells traditional Chinese medicines.

### ***Yulin Pharmaceutical***

Guangxi Yulin Pharmaceutical Group Co., Ltd.\* (廣西玉林製藥集團有限責任公司) (“**Yulin Pharmaceutical**”) is an indirect subsidiary of the Company established in the PRC and principally engaged in production and sales of pharmaceutical products.

### ***Guangzhou Consun, Inner Mongolia Consun and Horgos Consun***

Each of Guangzhou Consun Pharmaceutical Company Limited\* (廣州康臣藥業有限公司) (“**Guangzhou Consun**”), Consun Pharmaceutical (Inner Mongolia) Co., Ltd (康臣藥業(內蒙古)有限責任公司)\* (“**Inner Mongolia Consun**”) and Consun Pharmaceutical (Horgos) Co., Ltd.\* (康臣藥業(霍爾果斯)有限公司) (“**Horgos Consun**”) is an indirect wholly-owned subsidiary of the Company established in the PRC and principally engaged in the production and sales of pharmaceutical products.

### ***Zhuhai KTS***

As disclosed in the Announcement, Zhuhai KTS was a limited liability company established in the PRC. According to latest information available, from its registration in February 2017 up to its deregistration in August 2023, Zhuhai KTS was owned as to 99% by Kitex International Biotechnology Limited (乾安國際生物科技有限公司), a company registered in Macau which was in turn owned as to 96% by Mr. Xu, an executive Director of the Company since 2021 and the son of Ms. Li Qian, an executive Director at all material times of the Transactions with Zhuhai KTS, and 4% by Ms. Li Jiye, sister of Ms. Li. Therefore, Zhuhai KTS was a connected person of the Company, and any transaction between the Group and Zhuhai KTS would have constituted connected transactions under Chapter 14A of the Listing Rules. In addition, Zhuhai KTS was managed and operated by the Group's employees at all material times from its registration in February 2017 up to its deregistration in August 2023.

### ***Ms. Li Qian and Mr. Xu***

Ms. Li Qian was a former vice chairlady of the Board, chief executive officer, executive Director. She is also a substantial shareholder of the Company at all material times of the Identified Transactions. She was appointed as executive Director with effect from 24 December 2012 and was appointed as vice chairlady with effect from 1 June 2018. She was also the former chairlady of Guangzhou Consun, and a former director of Inner Mongolia Consun, Yulin Pharmaceutical and Horgos Consun. As noted from the annual report for the year ended 31 December 2022, during her tenure with the Company, Ms. Li Qian was primarily responsible for formulating the Group's strategies and their executions, managing the Group's overall operations, and directing the daily operations in all aspects. Ms. Li Qian resigned all position with the Group with effect from 17 January 2024 due to health reasons.

Mr. Xu is an executive Director and the son of Ms. Li Qian. He joined the Company in November 2020 and was appointed as executive Director since 24 March 2021.

## **INTERNAL INVESTIGATION**

### **Scope of the Internal Investigation**

The Internal Investigation conducted by the Investigation Committee has been completed. The scope of the Internal Investigation covered: (A) the accuracy and completeness of the information available relating to the Transactions, and whether there is any other Undisclosed Transactions; (B) the reasons for the Transactions not being reported to the Board at the material time and not being timely disclosed through publishing announcement in accordance with the Listing Rules; (C) the background and reasons for having the Transactions, the fairness and reasonableness of the terms of the Transactions, and whether misappropriation of the Company's resources was involved; (D) identification of any possible internal control deficiencies relating to the Transactions, review of the Group's internal control policies, and the relevant recommendations and remedial measures; and (E) suitability of the Director(s) concerned.

The Internal Investigation was conducted mainly through reviewing the past documents and records, conducting interviews with the relevant personnel involved, and analyzing findings from the IFA Opinion and the IC Consultant.



## Key findings

- (A) Accuracy and completeness of the available information in relation to the Transactions, and whether there is any other Undisclosed Transactions

In order to ascertain the accuracy and completeness of the available information in relation to the Transactions and to determine whether there is any other Undisclosed Transactions, the Investigation Committee conducted the following: (i) review of the report of the Special Audit conducted by the A&I Department; (ii) review of the relevant transaction and supporting documents including internal and external correspondence, agreements, payment records and approval records; (iii) review of the list of Connected Individuals and Connected Companies submitted by the Directors and the members of the senior management in the past; (iv) arranging of a special training conducted by the Company's legal advisers on Chapter 14A of the Listing Rules for, among others, the Directors and Ms. Li Qian; (v) arranging the Directors and Ms. Li Qian to respectively provide a statutory declaration on the completeness and correctness of the list of their Connected Individuals and Connected Companies; and (vi) cross checking the Company's financial information against the newly identified Connected Individuals and Connected Companies set out in the declaration records to ascertain whether the Group had any transactions with such entities.

Based on the results of the Internal Investigation, the basic information and the transaction amounts of the Transactions, which was disclosed in the Announcement were complete and accurate in all material respects.

- (B) Reasons for the Transactions not being reported to the Board at the material time and not being timely disclosed through publishing announcement in accordance with the Listing Rules

A number of meetings and communications were conducted with Ms. Li Qian, Mr. Xu and Mr. Yang Bo (楊波) (“**Mr. Yang**”, existing general manager of health technology department of the Company) (Ms. Li Qian, Mr. Xu and Mr. Yang, collectively as the “**Relevant Management Members**”). The Investigation Committee understands that the Relevant Management Members were not familiar with the requirements of the Listing Rules, and as a result of inadvertent oversight, did not report the Transactions to the Board and obtain relevant approvals.

In addition, the internal control policy of the Group has certain deficiencies, please refer to the paragraph (D) below for details of the deficiencies in the Group's internal control policy.

(C) Background and reasons for having the Transactions, the fairness and reasonableness of the terms of Transactions, and whether misappropriation of the Company’s resources was involved

(a) KTS OS Transactions and KTS SC Transactions

As explained in the paragraphs “INFORMATION IN RELATION TO KTS OS TRANSACTIONS AND KTS SC TRANSACTIONS – KTS OS Transactions – Reasons for the KTS OS Transactions and basis of consideration” and ““INFORMATION IN RELATION TO KTS OS TRANSACTIONS AND KTS SC TRANSACTIONS – KTS SC Transactions – Reasons for the KTS SC Transactions and basis of consideration”, the Investigation Committee is of the view that the terms of the KTS OS Transactions and KTS SC Transactions are in general fair and reasonable and there is no material evidence showing that there was any misappropriation of the Company’s resources.

(b) Other Transactions

In addition to the KTS OS Transactions and the KTS SC Transactions, the Group also entered into: (i) transactions with Zhuhai KTS in relation to procurement of promotional materials for a total amount of RMB37,070 in 2019; (ii) transactions with Zhuhai KTS in relation to sales of healthcare products for a total amount of RMB245,340 in 2021; (iii) transactions with Guangzhou Zhimeizhi Biotechnology Co., Ltd.\* (廣州植美芝生物科技有限公司) (“ZMZ”) in relation to procurement of skincare products for a total amount of RMB2,053,586 in 2020 and RMB110,507 in 2021; (iv) transactions with Guangzhou Yuanlongyu Biotechnology Co., Ltd.\* (廣州元隆鈺生物科技有限公司) (“YLY”), which was controlled by the spouse of Mr. Xu, in relation to procurement of skincare products for a total amount of RMB139,994 in 2023; and (v) transactions with Ms. Li Jiye, sister of Ms. Li Qian, in relation to rental of office premises for a total amount of RMB1,709,340 for the period from 2013 to 2023 (collectively, the “**De Minimis Transactions**”).

As one or more of the applicable percentage ratios set out in the Listing Rules in respect of each of the De Minimis Transactions are less than 0.1% or less than 5% and the total consideration is less than HK\$3,000,000 at the material time, it is likely that each of such transactions constituted de minimis connected transactions pursuant to Rule 14A.76(1) of the Listing Rules and is fully exempt from the reporting, announcement, annual review, independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Based on the results of the Internal Investigation and the work performed by the IFA which is based on relevant information and documents provided to the IFA, having considered (i) the relevant prices and rents are within the price range of the market price/rent of similar products/properties; (ii) internal records indicated that the De Minimis Transactions were genuinely conducted; and (iii) there was no material evidence showing that Zhuhai KTS, ZMZ, YLY or Ms. Li Jiye retained economic benefit under the relevant De Minimis Transactions, the Investigation Committee, the Board and the IFA are of the view that the terms of the De Minimis Transactions were conducted on normal commercial terms, fair and reasonable and in the best interests of the Company and the Shareholders as a whole. And there is no material evidence showing that there was any misappropriation of the Company’s resources.

- (D) Identification of any possible internal control deficiencies relating to the Transactions, review of the Group’s internal control policies, and the relevant recommendations and remedial measures

The IC Consultant was engaged to identify the relevant deficiencies of internal control policies of the Group, if any and provide recommendations on improvement.

Please refer to the paragraph headed “Internal Control Review” in this announcement for the details and results of the IC Review.

- (E) Suitability of the Director(s) concerned

Based on the results of the Internal Investigation, the Investigation Committee understands that Ms. Li Qian and Mr. Xu were not familiar with the requirements of the Listing Rules, and as a result of inadvertent oversight, did not (i) declare to the Company a complete list of Connected Individuals and Connected Companies at material times; and (ii) report the Transactions to the Board and obtain relevant approvals at material times. It was considered that Ms. Li Qian and Mr. Xu were not able to discharge their fiduciary duties as required under Rules 3.08 (d) and (e) of the Listing Rules, and hence not suitable to continue to act as Directors.

## **IFA OPINION**

Silver Nile Global Investments Limited was engaged as the IFA to assist the Investigation Committee in conducting the investigation in relation to (i) the reasons for entering into the Transactions and whether there was any misappropriation of the Company’s resources; (ii) the fairness and reasonableness of the terms of the Transactions and whether they were on normal commercial terms and were in the interests of the Company and its Shareholders as a whole; and (iii) whether the Directors involved are suitable to be a Director with reference to Rules 3.08 and 3.09 under the Listing Rules.

For the purpose of the IFA Opinion, the IFA had (i) obtained and reviewed the relevant correspondences in between the Group and relevant parties; (ii) obtained and reviewed the relevant documents, including but not limited to, contracts, sub-ledgers and accounting vouchers of the Company, internal approval documents, delivery notes, bank statements and proof of payments and receipts; (iii) obtained and reviewed the report prepared by the A&I Department; and (iv) compared and analyzed the information and documents obtained from above and conducted on-site visits to obtain information and follow up interviews with the relevant persons and parties.

According to the IFA Opinion, the IFA opined that based the information and documents provided to the IFA:

- (i) payment and receipt of funds and/or supply and demand of goods had actually occurred pursuant to the Transactions;
- (ii) no direct and material evidence: (a) which cause skeptical doubt on the genuineness on the reason for entering into the Transactions; (b) which indicate there were misappropriation of Company’s resources for personal interest under the Transactions; and (c) which indicate the terms of the Transactions are materially deviated from normal commercial terms and are completely not fair and reasonable, had been identified;

(iii) after taking into account of the requirements as set out in Rule 3.08 of the Listing Rules Ms. Li Qian and Mr. Xu failed to avoid actual and potential conflicts of interest and duty, failed to disclose fully and fairly their interests in contracts with the issuers and failed to ensure the Company had established and maintained an adequate and effective internal control system and risk management system and had failed to use their best endeavour to procure the Company's rule compliance in respect of the Transactions and the fact that: (a) there was recurring breach of requirements under Chapter 14A of the Listing Rules; (b) Ms. Li Qian being the chief executive officer of the Company was able to impose control and significant influence on the operation and management of the Company; and (c) the negative impact that the recurring and continuous nature of the Transactions had on the ability of each of Ms. Li Qian and Mr. Xu to discharge fiduciary duty of a Director, it was considered that Ms. Li Qian and Mr. Xu had acted below the required levels of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his/her office within the issuer, and thus they have not demonstrated the high standards required for directors of the listed companies in Hong Kong and their case of suitability as directors for the Company is not supported.

## INTERNAL CONTROL REVIEW

KPMG Advisory (China) Limited\* (畢馬威企業諮詢(中國)有限公司) was engaged as the IC Consultant to identify the relevant deficiencies of internal control policies of the Group, if any and provide recommendations on improvement.

The IC Review covered the Group's corporate governance environment and business process control modes and measures for key business processes including sales and receivables management, procurement and payables management, capital management, research and development management, production and inventory management, financial and taxation management, human resources management and information system management.

According to the report (the "IC Report") for the IC Review, each identified internal control deficiency is classified into the following categories depending on the extent of the impact of the relevant findings as a result of the internal control deficiencies:

- |                      |   |
|----------------------|---|
| <b>"High risk"</b>   | control deficiency resulted in the company's internal control system being unable to provide reasonable assurance that the financial statements were free of material misstatements as at date of the IC Report.  |
| <b>"Medium risk"</b> | a deficiency or combination of deficiencies that are less serious than a major deficiency but are nevertheless sufficient to cause concern to those responsible for operations, structure, procedures and systems, directors and key senior management, and the company's financial reporting regulators. |
| <b>"Low risk"</b>    | risks are those matters that do not result in control deficiencies, but which, if corrected, may improve operational efficiency.  |

Under the IC Report, the following deficiencies of the internal control mechanism in relation to connected transactions were identified: (i) at the internal control design level, the Company did not clearly define and improve the following contents in writing through the system, including responsible departments and work responsibilities for connected transaction management, procedures for identification and regular tracking of connected persons and connected transactions, procedures for summarizing, reviewing, and submitting approval of connected transaction information, and pricing standards for connected transactions and reconciliation procedures with related parties; and (ii) at the internal control implementation level, some senior executives failed to report the list of connected persons to the office to the Board. The risk levels of the above deficiencies were classified as “medium”.

In light of the abovementioned situation, the Company has taken disciplinary actions against the relevant management personnel in accordance with relevant management requirements. In November 2023, the A&I Department conducted the Special Audit and implemented the following procedures:

1. reviewed documents regarding the management mechanism of connected transactions within the Group;
2. examined the declaration records of Directors, Ms. Li Qian and senior management regarding the list of Connected Individuals and Connected Companies;
3. verified the completeness of the said declarations by cross-checking with the Company’s employee list and conducted public searches to identify any undisclosed connected parties;
4. cross-checked the Company’s financial information against the aforementioned declaration records and verification results to ascertain whether the Group had any transactions with the entities disclosed therein; and
5. conducted substantive examination of specific transactions and checked whether the relevant connected transactions are Undisclosed Transactions.

The Company’s office of the Board sent a notice titled “Regarding the Collection of Information on Connected Parties” through the office authorization (“OA”) system to members of the Board and directors, supervisors, and senior management above the level of general manager of subsidiaries of the Company. The office of the Board was responsible for consolidating the information related to connected parties obtained and preparing a list of Connected Individuals and Connected Companies, which was then shared with the human resources center and finance center through the OA system.

Through the aforementioned compensatory controls, the Company ensures compliance with the relevant requirements for connected transactions of listed companies.

In addition, the IC Consultant also reviewed the internal control mechanism of the Group as a whole. The internal control review covered the selected subsidiaries, including a testing and assessment of the effectiveness of the procedures, systems and controls established by the Group of their major operational cycles, such as sales and receivable management, purchases and payable management, cash management, research and development management, manufacturing and stock management, tax management, human resources management, information system management, as well as the overall corporate governance practice of the Group.

In the IC Report, the risk level of the internal control deficiencies related to the review on the Group are classified as “low” or “medium”. No findings of “high” risk level were identified.

## **CONCLUSION**

In view of the findings of the Internal Investigation, IFA Opinion and the IC Report, the Directors (excluding Mr. Xu) are of the view that the occurrence of the Transactions was mainly attributable to the internal control deficiencies of the Group and the failure of the compliance of the Listing Rules by Ms. Li Qian and Mr. Xu.

Other than that, deficiencies were noted for the Group’s internal controls over its key business processes and overall corporate governance practice, but the risks to the identified deficiencies are not material in nature.

## **REMEDIAL ACTIONS**

With the rectification recommendations for each internal control deficiency identified during the IC Review set out by the IC Consultant in the IC Report (including but not limited to recommendations on rectification and enhancement of existing policy design and implementation procedures), the Company will implement each and every recommendations, including but not limited to regularly request for confirmation or update of the list of Connected Individuals and Connected Companies from Directors and senior management and cross-check the same with the Company’s employee list and public search results and the Company’s financial information, and arrange trainings for the Directors and senior management of the Group on Listing Rules compliance and internal control, to ensure a complete and effective enhancement of the Group’s internal control mechanism and to prevent incidents similar to the Transactions from reoccurring. The Company will also engage an internal control consultant to conduct an internal follow-up review in approximately six months after the date of the IC Report, in order to ensure all identified internal control deficiencies are rectified by the Group.

Pursuant to article 108 of the articles of association of the Company (the “**Articles**”), at least one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting provided that every Director shall be subject to retirement by rotation at least once every three years. As Mr. Xu did not retire in the annual general meeting of the Company in the past two years, he is required to retire by rotation at the forthcoming annual general meeting of the Company to be held on 31 May 2024 (the “**AGM**”). As disclosed in the letter from the Board in the circular of the Company dated 30 April 2024, the Board expressed its opinion on not recommending the Shareholders to vote for the re-election of Mr. Xu. It is expected Mr. Xu would not be re-elected and shall cease to be a Director at the conclusion of the AGM.

Mr. Xu has been suspended from all his powers and duties as Director since 17 January 2024. The Board is of the view that Mr. Xu is not able to affect the operation or cause any further damage to the Company and it is unnecessary at the moment for the Company to take further step to remove Mr. Xu. In the event that Mr. Xu is re-elected at the AGM, the Board will remove Mr. Xu as a Director pursuant to Article 105(g) by notice in writing served on him signed by not less than 3/4 in number of the Directors (including Mr. Xu) shortly after the AGM.

By order of the Board of  
**Consun Pharmaceutical Group Limited**  
**An Meng**  
*Chairman*

Hong Kong, 16 May 2024

*As at the date of this announcement, the Board comprises Mr. An Meng, Professor Zhu Quan and Mr. Xu Hanxing as executive Directors; Doctor Zhang Lihua as a non-executive Director; and Mr. Feng Zhongshi and Ms. Chen Yujun as independent non-executive Directors.*