

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**康臣葯業集團有限公司**  
**CONSUN PHARMACEUTICAL GROUP LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1681)**

## **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014**

### **FINANCIAL HIGHLIGHTS**

- Turnover for the six months ended 30 June 2014 amounted to RMB320,222,000, representing an increase of approximately 40.2% compared with the six months ended 30 June 2013.
- Profit for the six months ended 30 June 2014 attributable to equity shareholders of the Company amounted to RMB90,828,000, representing an increase of approximately 53.8% compared with the six months ended 30 June 2013.
- Basic and diluted earnings per share for the six months ended 30 June 2014 amounted to RMB0.09, representing an increase of approximately 12.5% compared with the six months ended 30 June 2013.
- The Board has declared an interim dividend of RMB0.038 per share for the six months ended 30 June 2014.

### **INTERIM RESULTS**

The board (the “Board”) of directors (the “Directors”) of Consun Pharmaceutical Group Limited (the “Company”) is pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2014 (the “Interim Results”).

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2014 – UNAUDITED**

*(Expressed in Renminbi)*

		<b>For the six months ended 30 June</b>	
	<i>Note</i>	<b>2014 RMB'000</b>	<b>2013 RMB'000</b>
<b>Turnover</b>	6	<b>320,222</b>	228,390
Cost of sales		<u>(70,443)</u>	<u>(50,023)</u>
<b>Gross profit</b>		<b>249,779</b>	178,367
Other revenue	7	<b>17,377</b>	1,082
Distribution costs		<b>(114,917)</b>	(73,327)
Administrative expenses		<b>(43,579)</b>	(25,421)
Other net losses	7	<u>(96)</u>	<u>(118)</u>
<b>Profit before taxation</b>	8	<b>108,564</b>	80,583
Income tax expenses	9	<u>(17,736)</u>	<u>(21,517)</u>
<b>Profit for the period attributable to equity shareholders of the Company</b>		<b>90,828</b>	59,066
<b>Other comprehensive income for the period</b>			
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC") which may be reclassified subsequently to profit or loss		<u>57</u>	<u>(4)</u>
<b>Total comprehensive income for the period attributable to equity shareholders of the Company</b>		<b><u>90,885</u></b>	<b><u>59,062</u></b>
<b>Earnings per share (RMB yuan)</b>			
– Basic	10	<b>0.09</b>	0.08
– Diluted	10	<b>0.09</b>	0.08

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014 – UNAUDITED**  
*(Expressed in Renminbi)*

		At 30 June 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
	<i>Note</i>		
<b>Non-current assets</b>			
Property, plant and equipment	13	234,644	232,270
Lease prepayments		24,515	24,828
Other investment		2,600	2,600
Deferred tax assets		8,775	4,558
<b>Total non-current assets</b>		<u>270,534</u>	<u>264,256</u>
<b>Current assets</b>			
Inventories	14	42,264	48,966
Trade and other receivables	15	174,598	241,697
Cash and cash equivalents	16	1,058,602	902,026
<b>Total current assets</b>		<u>1,275,464</u>	<u>1,192,689</u>
<b>Current liabilities</b>			
Trade and other payables	17	109,039	138,428
Loans and borrowings	18	20,000	–
Deferred income	19	436	436
Current tax payables		3,955	11,251
<b>Total current liabilities</b>		<u>133,430</u>	<u>150,115</u>
<b>Net current assets</b>		<u>1,142,034</u>	<u>1,042,574</u>
<b>Total assets less current liabilities</b>		<u>1,412,568</u>	<u>1,306,830</u>
<b>Non-current liabilities</b>			
Deferred income	19	12,273	9,567
Deferred tax liabilities		39,166	39,899
<b>Total non-current liabilities</b>		<u>51,439</u>	<u>49,466</u>
<b>Net assets</b>		<u>1,361,129</u>	<u>1,257,364</u>
<b>Capital and reserves</b>			
Share capital		78,250	78,250
Reserves		1,282,879	1,179,114
<b>Total equity</b>		<u>1,361,129</u>	<u>1,257,364</u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

## 1 BASIS OF PREPARATION

The unaudited interim financial information was extracted from the interim financial report of the Group for the six months ended 30 June 2014.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 27 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy of “Share-based payments” as disclosed in Note 2 and the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of the changes in accounting policies are set out in Note 3.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2013 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the financial year ended 31 December 2013 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2013 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 21 March 2014.

## 2 ACCOUNTING POLICY OF SHARE-BASED PAYMENTS

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial tree model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the period of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company’s shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

### 3 CHANGES IN ACCOUNTING POLICIES

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

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*
- HK(IFRIC) 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

#### **Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities***

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as the Company does not qualify to be an investment entity.

#### **Amendments to HKAS 32, *Offsetting financial assets and financial liabilities***

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

#### **Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets***

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on the Group's interim financial report as the Group does not have any impaired non-financial assets.

#### **Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting***

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on the Group's interim financial report as the Group has not novated any of its derivatives.

#### **HK (IFRIC) 21, *Levies***

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's interim financial report as the guidance is consistent with the Group's existing accounting policies.

#### 4 SEGMENT REPORTING

Management has determined operating segments with reference to the reports reviewed by the chief operating decision maker of the Group that are used to assess the performance and allocate resources.

The chief operating decision maker of the Group assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of sales of pharmaceutical products. Therefore, the Group's management considers that there is only one operating segment under the requirements of HKFRS 8, Operating Segments. In this regard, no segment information is presented for the period.

No geographic information is presented as the Group's operating profit is entirely derived from its business activities in the PRC.

#### 5 SEASONALITY OF OPERATION

The Group's sales of pharmaceutical products on average experience over 50% higher in the fourth quarter in comparison with other quarters in the year, because the Group generally receives more orders from distributors in the fourth quarter of the year prior to new year holidays and the smaller size hospitals, medical institutions and pharmacies in the more remote and less developed regions generally place their only orders in the fourth quarter of the year. The Group anticipates this demand by increasing its production to build up inventories during the second half of the year.

For the twelve months ended 30 June 2014, the Group reported revenue of RMB663,597,000 (twelve months ended 30 June 2013: RMB504,272,000), and gross profit of RMB523,646,000 (twelve months ended 30 June 2013: RMB389,592,000).

#### 6 TURNOVER

The principal activities of the Group are manufacturing and sales of pharmaceuticals.

The amount of each significant category of revenue recognised in turnover during the period is as follows:

	<b>For the six months ended 30 June</b>	
	<b>2014</b>	2013
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Kidney medicines	<b>245,600</b>	175,029
Contrast medium	<b>47,713</b>	40,347
Others	<b>26,909</b>	13,014
	<b>320,222</b>	228,390

## 7 OTHER REVENUE AND OTHER NET LOSSES

### (a) Other revenue

	For the six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Government grants		
– Unconditional subsidies	3,693	323
– Conditional subsidies	1,294	31
Interest income	12,365	728
Others	25	–
	<u>17,377</u>	<u>1,082</u>

### (b) Other net losses

	For the six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Loss on disposal of fixed assets	(96)	(569)
Others	–	451
	<u>(96)</u>	<u>(118)</u>

## 8 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

### (a) Staff costs:

	For the six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Salaries, wages, bonuses and benefits	58,510	41,182
Contribution to retirement schemes	2,043	1,529
Equity settled share-based payment expenses	12,880	–
	<u>73,433</u>	<u>42,711</u>

(b) Other items:

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Depreciation	6,586	6,139
Amortisation	313	277
Impairment losses recognized for doubtful debts	260	228
Operating lease charges	326	2
Research and development cost <sup>#</sup>	5,463	4,771
Cost of inventories <sup>*</sup>	70,443	50,023

<sup>#</sup> During the six months ended 30 June 2014, research and development cost include RMB1,930,000 (six months ended 30 June 2013: RMB2,437,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in the Note 8(a) for each of these types of expenses.

<sup>\*</sup> During the six months ended 30 June 2014, cost of inventories include RMB16,180,000 (six months ended 30 June 2013: RMB13,575,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in the Note 8(a) for each of these types of expenses.

9 INCOME TAX EXPENSES

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
<b>Current tax</b>		
Provision for PRC income tax	22,686	14,186
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(4,950)	7,331
	<u>17,736</u>	<u>21,517</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) No provision was made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax for six months ended 30 June 2014 (six months ended 30 June 2013: 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.

As Consun Pharmaceutical (Inner Mongolia) Co., Ltd. (“Inner Mongolia Consun”) was certified as an “Advanced and New Technology Enterprise”, Inner Mongolia Consun was entitled to the preferential income tax rate of 15% from 2012 to 2014.

Guangzhou Consun Pharmaceutical Company Limited (“Guangzhou Consun”) was qualified as an “Advanced and New Technology Enterprise” and entitled to the preferential income tax rate of 15% from 2011 to 2013. Guangzhou Consun is applying for the extension of “Advanced and New Technology Enterprise” and the entitlement of the preferential income tax rate for 2014 to 2016. In the opinion of directors, they do not foresee any difficulties to obtain an approval of the preferential income tax rate for 2014 to 2016. Therefore, the PRC income tax rate applicable to Guangzhou Consun was of 15% for the six months ended 30 June 2014 (six months ended 30 June 2013: 15%).



- (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.

As Guangzhou Consun is wholly owned by the Company, the Company can control the payments of dividends by Guangzhou Consun. According to the Group's plan and intention of reinvesting its earnings in its PRC business, it will not distribute any earnings of Guangzhou Consun and its PRC subsidiaries for the six months ended 30 June 2014 amounted to RMB84,007,000 in the foreseeable future. Accordingly, the Company has not provided for the related deferred tax liabilities on the undistributed earnings of the PRC subsidiaries totalling RMB84,007,000 as of 30 June 2014 (31 December 2013: nil).

## **10 EARNINGS PER SHARE**

### **(a) Basic earnings per share**

The calculation of basic earnings per share for the six months ended 30 June 2014 is based on the profit attributable to equity shareholders of the Company of RMB90,828,000 and 1,000,000,000 shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2013 is based on the profit attributable to equity shareholders of the Company of RMB59,066,000 and 750,000,000 shares in issue as at 30 June 2013 as if the shares were outstanding throughout the period.

### **(b) Diluted earnings per share**

For the period ended 30 June 2014, the effect of the Company's share option scheme (see note 11) was anti-dilutive. There were no dilutive potential ordinary shares in issue for the six months ended 30 June 2013. Therefore, for the six months ended 30 June 2014 and 2013, the diluted earnings per share of the period are the same as the basic earnings per share.

## **11 EQUITY SETTLED SHARE-BASED PAYMENTS**

The Company has a share option scheme ("Scheme") which was adopted on 2 December 2013 whereby the Board of the Company is authorised, at its discretion, to grant options to the directors and employees of the Group to subscribe for ordinary shares of the Company. The Company can issue options exercisable up to 100,000,000 ordinary shares under the Scheme.

During the six months ended 30 June 2014, the Company granted 60,000,000 share options to certain directors and employees at a consideration of HK\$1 for each grantee. The exercise price of these share options was HK\$6.64 per share, and the aggregate fair value of these share options amounted to RMB138,095,000. The options vest after one year to five years from the date of grant and are then exercisable on or before 23 March 2024.

(a) **The terms and conditions of the grants are as follows:**

<b>Date of grant</b>	<b>Tranche number</b>	<b>Number of options granted</b>	<b>Vesting conditions</b>	<b>Contractual life of options</b>
Options granted to employees:				
28 March 2014	Tranche 1	9,100,000	1 year after the date of grant	10 years
28 March 2014	Tranche 2	9,100,000	2 years after the date of grant	10 years
28 March 2014	Tranche 3	10,800,000	3 years after the date of grant	10 years
28 March 2014	Tranche 4	4,000,000	4 years after the date of grant	10 years
28 March 2014	Tranche 5	4,000,000	5 years after the date of grant	10 years
Options granted to directors:				
28 March 2014	Tranche 1	900,000	1 year after the date of grant	10 years
28 March 2014	Tranche 2	900,000	2 years after the date of grant	10 years
28 March 2014	Tranche 3	1,200,000	3 years after the date of grant	10 years
28 May 2014	Tranche 6	6,000,000	1 year after the date of grant	9.8 years
28 May 2014	Tranche 7	6,000,000	2 years after the date of grant	9.8 years
28 May 2014	Tranche 8	8,000,000	3 years after the date of grant	9.8 years
<b>Total share options granted</b>		<b><u>60,000,000</u></b>		

(b) **The number and weighted average exercise prices of share options are as follows:**

	<b>Six months ended 30 June 2014</b>	
	<b>Weighted average exercise price HK\$</b>	<b>Number of options '000</b>
Outstanding at the beginning of the period	—	—
Granted during the period	<b>6.64</b>	<b>60,000</b>
Outstanding at the end of the period	<b>6.64</b>	<b>60,000</b>
Exercisable at the end of the period	—	—

The options outstanding at 30 June 2014 had an exercise price of HK\$6.64 and a weighted-average remaining contractual life of 9.8 years.

(c) **Fair value of share options and assumptions:**

The fair value of services received in return for the share options granted is measured by reference to the fair value of share options granted. The estimated fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share options is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model. Set out below are the fair value of share options and assumptions.

	Tranche number							
	1	2	3	4	5	6	7	8
Fair value at measurement date (HK\$)	2.60	2.83	3.04	3.23	3.39	2.57	2.82	3.05
Share price (HK\$)	5.85	5.85	5.85	5.85	5.85	6.01	6.01	6.01
Exercise price (HK\$)	6.64	6.64	6.64	6.64	6.64	6.64	6.64	6.64
Expected volatility	57.98%	57.98%	57.98%	57.98%	57.98%	57.97%	57.97%	57.97%
Expected option life	10 years	10 years	10 years	10 years	10 years	9.8 years	9.8 years	9.8 years
Expected dividends	-	-	-	-	-	-	-	-
Risk-free rate	2.26%	2.26%	2.26%	2.26%	2.26%	1.91%	1.91%	1.91%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service conditions. The conditions had not been taken into account in the grant date fair value measurement of the services received. There was no market conditions associated with the share option grants.

## 12 DIVIDENDS

Dividends payable to equity shareholders attributable to the interim period

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Interim dividend declared after the interim period of RMB0.038 per share (six months ended 30 June 2013: nil)	<b>38,000</b>	-

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

## 13 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group acquired items of property, plant and machinery with a cost of RMB9,109,000 (six months ended 30 June 2013: RMB36,934,000).

## 14 INVENTORIES

	At 30 June 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
Raw materials	11,459	11,024
Work in progress	7,510	9,276
Finished goods	23,295	28,666
	<u>42,264</u>	<u>48,966</u>

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

	For the six months ended 30 June	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Cost of inventories sold	70,443	49,694
Write down of inventories	2,207	329
	<u>72,650</u>	<u>50,023</u>

## 15 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
Within 3 months	146,508	224,524
3 to 12 months	130	219
Over 12 months	–	252
	<u>146,638</u>	<u>224,995</u>
Trade debtors and bills receivable, net of allowance for doubtful debts	146,638	224,995
Other receivables, prepayments and deposits	27,960	16,702
	<u>174,598</u>	<u>241,697</u>

Trade debtors and bills receivable are generally due within 180 days from the date of billing.

As at 30 June 2014, the Group's trade debtors of RMB7,643,000 (31 December 2013: RMB5,898,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered.

## 16 CASH AND CASH EQUIVALENTS

	At 30 June 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
Cash at bank and in hand	<u><b>1,058,602</b></u>	<u>902,026</u>

## 17 TRADE AND OTHER PAYABLES

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

	At 30 June 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
Within 1 month	6,488	11,738
1 to 12 months	13,701	8,652
Over 12 months	<u>1,501</u>	<u>177</u>
Total trade payable	----- <b>21,690</b>	----- 20,567
Receipts in advance	4,740	3,470
Accrued expenses	24,714	32,673
Employee benefits payable	29,548	26,923
Other payables	<u>28,347</u>	<u>54,795</u>
	<u><b>109,039</b></u>	<u>138,428</u>

## 18 LOANS AND BORROWINGS

The analysis of the carrying amount of loans and borrowings is as follows:

	At 30 June 2014 <i>RMB'000</i>	At 31 December 2013 <i>RMB'000</i>
Unsecured loans from local government	<u><b>20,000</b></u>	<u>–</u>

During the six months ended 30 June 2014, the Finance Bureau of Kezuohouqi, Inner Mongolia had granted loans of RMB20,000,000 to Inner Mongolia Consun. The loans are unsecured, interest-free and repayable in October 2014.

## 19 DEFERRED INCOME

The movements in deferred income as stated under current and non-current liabilities are as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
At the beginning of the period/year	10,003	2,798
Additions	4,000	7,929
Credited to profit or loss	(1,294)	(724)
	<u>12,709</u>	<u>10,003</u>
<b>Representing:</b>		
Current portion	436	436
Non-current portion	12,273	9,567
	<u>12,709</u>	<u>10,003</u>

As at 30 June 2014 and 31 December 2013, 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.

Deferred government grants relating to research and development projects will be recognised as income in the same periods in which the expenses for the development project are incurred. Deferred government grants relating to purchase of land use rights will be recognised as income on a straight-line basis over the expected useful life of the relevant land use rights.

## 20 CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2014 not provided for in the interim financial report were as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Contracted for	<u>4,564</u>	<u>5,983</u>

## 21 MATERIAL RELATED PARTY TRANSACTIONS

### Key management personnel remuneration

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Salaries and other benefits	5,681	2,875
Retirement scheme of defined contribution	33	35
Equity settled share-based payment expenses	4,753	–
	<u>10,467</u>	<u>2,910</u>

Total remuneration is included in “staff costs” (see Note 8(a)).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The following discussion and analysis should be read in conjunction with the unaudited interim financial report of Consun Pharmaceutical Group Limited (the “Company”) and its subsidiaries (the “Group”). The interim financial report has been prepared in accordance with Hong Kong Accounting Standard 34, ‘Interim Financial Reporting’.

### **BUSINESS REVIEW**

By developing the market intensively, the Group has kept sales on a robust growth trend and a turnover of RMB320,222,000 was recorded for the six months ended 30 June 2014, representing an increase of 40.2% compared with the same period last year. Categorized by product lines, sales of Kidney medicines recorded an increase of 40.3% compared with the same period last year, among which, the Group’s main product, uremic clearance granules (“UCG”) remained the growth driver of the Group’s sales and maintained its leading position in terms of oral modern Chinese medicines for kidney diseases; whilst the rise of sales of medical contrast medium was 18.3% compared with the same period last year, firmly consolidated the Group’s leading position in the domestic medical contrast medium market for magnetic resonance imaging. Sales of the other medicines achieved a significant growth of 106.8% compared with the same period last year.

The Group experienced an increase in turnover for the first half of 2014, mainly attributable to the success of UCG and Gadopentetic Acid Dimeglumine Salt Injection (“GD-DTPA”), being two of the Group’s major products, with the implementation of its marketing guideline to develop the market segments intensively. Specifically, with the continuous tutoring activities in the inpatient department, products were introduced pertinently to all the departments other than the department of nephrology in various ways. We have recruited and trained additional academic representatives who became familiar with the Group’s products in a designed manner in order to extend our coverage over hospitals and physicians. Compared with the same period last year, the Group’s products penetrated in more hospitals, not only covering tertiary hospitals, but rather secondary or lower hospital (community hospitals). Further, UCG has been included in the latest version of the National List of Essential Medicines rendering better chances for it to be learned and applied by more patients.

### **FINANCIAL REVIEW**

#### **Turnover and Other Revenue**

The Group’s turnover for the first half of 2014 was RMB320,222,000, representing an increase of 40.2% compared to that of the same period last year. The increase was primarily attributable to the growth in sales as a result of the Group’s efforts to expand its national sales network by developing the market intensively. Other revenue was RMB17,377,000, which mainly included the government grants and interest income. Compared with RMB1,082,000 in the same period of 2013, increase in other income was mainly due to the increased government grant recognized during the period and the interest income of RMB12,000,000 generated from the proceeds from the new shares issued by the Company, which were temporarily deposited in the bank.

#### **Gross Profit and Gross Profit Margin**

For the first half of 2014, the Group’s gross profit was RMB249,779,000, representing an increase of 40.0% from RMB178,367,000 for the same period of 2013, mainly due to the increase of sales. The Group’s gross profit margin was 78.0% for the first half of 2014, representing a slight decrease of 0.1% from 78.1% compared with the same period last year.

## **Distribution Costs**

The Group's distribution costs increased by 56.7% from RMB73,327,000 in the first half of 2013 to RMB114,917,000 in the first half of 2014, which was mainly due to the expansion of the marketing network, recruitment of additional marketing staff and increase of marketing and academic promotion activities, as well as the share-based payment recognized for the fair value of share options granted to sales employees during the period.

## **Administrative Expenses**

The Group's administrative expenses for the first half of 2014 was RMB43,579,000. The Group's administrative expenses increased by 71.4% from RMB25,421,000 in the same period of 2013, which was mainly due to the raise of certain management expenses and professional fees, as well as the share-based payment recognized for the fair value of share options granted to administrative employees during the period. On the other hand, the Group continued to invest in research and development of new products, with the number of research projects increased and the range thereof expanded. The administrative expenses, including research and development costs during the period was RMB5,463,000, representing an increase of 14.5% compared to RMB4,771,000 during the same period of 2013.

## **Finance Costs**

During the first half of 2014 and the first half of 2013, all of the Group's short loans were interest-free loans granted by local governments with a view to foster the development of enterprises. Therefore, no finance costs were incurred by the Group during the period.

## **Income Tax**

The Group's income tax for the first half of 2014 was RMB17,736,000, representing a decrease of 17.6% compared with RMB21,517,000 for the same period of 2013. The effective tax rate (income tax divided by profit before taxation) decreased by 10.4% from 26.7% in the first half of 2013 to 16.3% for the same period of 2014, mainly because majority of the interest income during the period were tax-exempt interest income earned in Hong Kong, and since the subsidiaries of the Group located in mainland China were not expected to distribute profits for the fiscal year of 2014 to their respective offshore holding companies in the foreseeable future, no withholding tax was provided in relation to the undistributed profit of the Group's PRC subsidiaries after 1 January 2014.

## **Profit for the Period and Earnings Per Share**

The Group's profit for the first half of 2014 was RMB90,828,000, representing an increase of 53.8% from RMB59,066,000 for the same period of 2013. The earnings per share (basic and diluted) increased by RMB0.01 from RMB0.08 in 2013 to RMB0.09 in 2014.



## **LIQUIDITY AND FINANCIAL RESOURCES**

### **Trade Debtors and Bills Receivable**

As at 30 June 2014, the balance of trade debtors and bills receivable was RMB146,638,000, decreased by 34.8%, compared to the balance of RMB224,995,000 as of 31 December 2013. The receivables turnover days in the first half of 2014 were 105.0 days, reduced by 46.1 days from 151.1 days in 2013. It was mainly due to the increase of cash payment from customers that the Group had been working on and the reduction of bank acceptance tenor.

### **Inventories**

As at 30 June 2014, the balance of inventories was RMB42,264,000, decreased by 13.7%, compared to the balance of RMB48,966,000 as of 31 December 2013. The Group's inventory turnover days in the first half of 2014 were 117.2 days, increased by 8.2 days from 109.0 days in 2013. It was mainly due to the inventories built up for the demands during the temporary cessation of production on account of the upgrading of a medical contrast medium production line.

### **Trade Payable**

As at 30 June 2014, the balance of trade payable was RMB21,690,000, representing an increase of 5.5% compared to the balance of RMB20,567,000 as of 31 December 2013. The payables turnover days in the first half of 2014 were 54.3 days, reduced by 25.9 days from 80.2 days in 2013. It was mainly attributable to settlement of purchases accelerated in line with the improvement of the Group's cash flow.

### **Cash Flow from Operating Activities**

The net cash flow from operating activities of the Group in the first half of 2014 was RMB158,622,000, increased by 236.2% compared to RMB47,175,000 in the first half of 2013. It was mainly due to the increase in sales and the reduction of receivables turnover days.

### **Cash and Bank Balances and Borrowings**

As at 30 June 2014, cash and bank balances of the Group were RMB1,058,602,000, representing an increase of 17.4% compared to RMB902,026,000 as at 31 December 2013. It was mainly due to the net cash inflow from operating activities. The Group's short-term borrowings as at 30 June 2014 were RMB20,000,000, which were interest-free loans granted by local governments with a view to foster the development of enterprises and are repayable on 31 October 2014. (31 December 2013: the balance of borrowings was nil).

## **Use of Proceeds from the Initial Public Offering of Shares**

The net proceeds of the Company's initial public offering of shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19 December 2013 (after deducting the listing expenses of approximately RMB78,263,000) is approximately RMB774,662,000. The Group will use such net proceeds in the following manner as disclosed in the prospectus:

- Approximately 40% for infrastructure investment;
- Approximately 20% for research and development activities in order to develop new products;
- Approximately 15% for expansion of our existing marketing and distribution networks;
- Approximately 15% for merger and acquisition; and
- Approximately 10% for working capital and other general corporate purposes.

As of the date of this report, the Group has not used any proceeds. Such proceeds are temporarily deposited in banks in China and Hong Kong to earn interest income. As of the date of this report, the Directors are not aware of material change to the planned use of the proceeds from the plan as stated in the Prospectus.

## **Treasury Policies**

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

## **Gearing Ratio**

The gearing ratio of the Group, representing the total borrowings divided by the shareholders equity as at 30 June 2014 is 1.5% (31 December 2013: 0%).

## **Exchange Risks**

The Group's transactions are mainly denominated in RMB and HK\$. The majority of assets and liabilities are denominated in RMB and HK\$, and there are no significant assets and liabilities denominated in other currencies. The Group is subject to foreign exchange rate risk arising from future commercial transactions and recognised assets and liabilities which are denominated in a currency other than HK\$ or RMB, which are the functional currencies of the major operating companies now comprising the Group. During the period, the Group did not commit to any financial instruments to hedge its exposure to foreign currency risk.

## **Capital Structure**

The shares of the Company were listed on the Stock Exchange on 19 December 2013. There has been no material change in the capital structure of the Company since then. The capital of the Company comprises ordinary shares and other reserves.

## **Capital Commitments**

As at 30 June 2014, the Group had capital commitments of RMB4,564,000 (31 December 2013: RMB5,983,000).

## **Capital Expenditure**

For the six months ended 30 June 2014, the Group had capital expenditure of RMB9,109,000 (corresponding period in 2013: RMB36,934,000).

## **Information on Employees**

As at 30 June 2014, the Group hired a total of 1,143 employees (31 December 2013: 1,149). For the six months ended 30 June 2014, the total staff costs (including the directors' remuneration) was RMB73,433,000 (corresponding period in 2013: RMB42,711,000). The salaries of the employees were determined with reference to individual performance, work experience, qualification and current industry practices.

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

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

## **Significant Investments Held**

Except for investments in subsidiaries, during the period ended 30 June 2014, the Group did not hold any significant investment in equity interest in any other company.

## **Future Plans for Material Investments and Capital Assets**

Save as disclosed in the Company's Prospectus and 2013 annual report, the Group currently does not have other plans for material investments and capital assets.

## **Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies**

During the period ended 30 June 2014, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

## **Pledge of Assets**

As at 30 June 2014, the Group did not have any pledged assets (2013: Nil).

## **Contingent Liabilities**

As at 30 June 2014, the Group did not have any material contingent liabilities (2013: Nil).

## **Events After the Reporting Period**

As of the reporting date, except for the proposed interim dividend, the Group has no significant events after the period required to be disclosed.

## **OUTLOOK**

Looking ahead, the Group will continue to uphold the Group's advantages in oral modern Chinese medicines for kidney diseases and medical contrast medium segments, and with the support of national macroeconomic policies, make efforts to allow more patients to be able to use our products, and contribute to the health of mankind!

## **INTERIM DIVIDEND**

The Board is pleased to announce the distribution of an interim dividend (the "Interim Dividend") of RMB0.038 per share in respect of the six months ended 30 June 2014 (2013: Nil), amounted to RMB38,000,000 (2013: Nil). It is expected that the Interim Dividend will be payable on Wednesday, 15 October 2014 to the Shareholders whose names appear on the register of members of the Company on Friday, 3 October 2014. Dividends are declared in RMB and will be paid in HK\$ based on the official exchange rate of RMB against HK\$ as quoted by the People's Bank of China on 3 October 2014 before payment.

## **CLOSURE OF REGISTER OF MEMBERS**

For the purpose of determining Shareholders' entitlement to the Interim Dividend, the register of members of the Company will be closed from Monday, 29 September 2014 to Friday, 3 October 2014 (both days inclusive).

In order to qualify for the entitlements to the Interim Dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East, Wan Chai Hong Kong, not later than 4:30 pm on Friday, 26 September 2014.

## **OTHER INFORMATION**

### **Directors' Interests in Contracts**

Save as otherwise disclosed, there was no contract of significance to which the Company or its holding company or any of its subsidiaries was a party and in which a Director of the Company had a material interest subsisted at the end of the period or at any time during the period.

## **Non-Competition Undertaking by Controlling Shareholders**

Each of controlling shareholders (collectively, the “Non-Competing Covenantors”) entered into a deed of noncompetition (“Deed of Non-Competition”) on 2 December 2013, pursuant to which the Non-Competing Covenantors have irrevocably and severally (but not jointly and severally) undertaken to the Company (for itself and for the benefit of each of the members of the Group) that with effect from the date of Listing and for as long as the shares of the Company remain so listed on the Stock Exchange and the controlling shareholders are individually or collectively with any of his/its associates interested directly or indirectly in not less than 30.0% of the issued ordinary share capital of the Company (the “Restricted Period”), the Non-Competing Covenantors or their respective associates shall not, (i) directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business (whether as owner, director, operator, licensor, licensee, partner, shareholder, joint venture, employee, consultant or otherwise) in competition with or likely to be in competition with the existing business carried on by the Group (the “Restricted Business”); and (ii) directly or indirectly take any action which constitutes an interference with or a disruption of the Restricted Business including, but not limited to, (a) solicitation of any existing or then existing employees of the Group for employment by them or their associates (excluding the Group); (b) solicitation of any current or then current customers and/or suppliers and/or former customers and/or suppliers of the Group for the preceding 6 months at the relevant time away from the Group; and (c) without the consent from the Company, making use of any information pertaining to the business of the Group which may have come to their knowledge in their capacity as Substantial Shareholders for the purpose of engaging, investing or participating in any Restricted Business. Each of the Non-Competing Covenantors severally (but not jointly and severally) undertakes to the Company (for itself and for the benefit of each of the members of the Group) that, in respect of any order or any part of it undertaken or proposed to be undertaken by him/her or his/her associates for the Restricted Business, it shall and shall procure that his/her associates shall, unconditionally use reasonable endeavours to procure that such customer(s) to appoint or contract directly with any member of the Group for the Restricted Business under the relevant order.

Each of the Non-Competing Covenantors jointly and severally undertakes to indemnify and keep indemnified the Group against any damage, loss or liability suffered by the Company or any other member of the Group arising out of or in connection with any breach of its undertakings and/or obligations under the Deed of Non-Competition, including any costs and expenses incurred as a result of such breach provided that such indemnity shall be without prejudice to any other rights and remedies the Company is entitled to in relation to any such breach, including specific performance, and all such other things and remedies are hereby expressly reserved by the Company.

Each of the controlling shareholders has confirmed to the Company of his/its compliance with the Deed of Non-Competition provided to the Company until (i) the date on which the Company’s shares cease to be listed on the Stock Exchange; or (ii) the date on which the relevant Covenantor and his/its associates cease to own 30% or more of the then issued share capital of the Company directly or indirectly; whichever occurs first.

The independent non-executive Directors of the Company had reviewed the status of compliance as well as confirmation by the controlling shareholders of the Company and, on the basis of such confirmation, are of the view that such controlling shareholders have complied with their non-competition undertakings under the Deed of Non-Competition.

## Connected Transaction

We had not entered into any transactions which constitute non-exempt connected transactions within the meaning of the Listing Rules in the first half of 2014.

## Share Option Scheme

The Company's existing Share Option Scheme was approved for adoption pursuant to a written resolution of all of our shareholders passed on 2 December 2013 for the purpose to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and or providing benefits to eligible participants and for such other purposes as the Board approve from time to time. Subject to the terms of the Share Option Scheme, the board may, at their absolute discretion, grant or invite any person belonging to any of the following classes to take up options to subscribe for shares: (a) any employee, supplier/service provider, customer, partner or joint-venture partner of the Group (including any director, whether executive and whether independent or not, of the Group) who is in fulltime or part-time employment with the Company or any subsidiaries ; (b) any person who have contributed or may contribute to the Group. The total number of share which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of shares in issue on the date of Listing. Unless the Company seeks the approval of the shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating 10% limit.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed "Share Option Scheme" in section headed "Statutory and General Information" in Appendix V to the Prospectus. The principal terms of the Share Option Scheme are summarised as follows:

The exercise price per share of the Company for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of:

- (1) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer for the grant of option ("Date of Grant") which must be a trading day;
- (2) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five trading days immediately preceding the Date of Grant;
- (3) the nominal value of the shares on the Date of Grant.

Upon acceptance of the options, the grantee shall pay HK\$1.00 to the Company as consideration for the grant. The acceptance of an offer of the grant of the option must be made within the date as specified in the offer letter issued by the Company. The exercise period of any option granted under the Share Option Scheme shall not be longer than 10 years commencing on the date of grant and expiring on the last day of such 10-year period subject to the provisions for early termination as contained in the Share Option Scheme. The total number of new shares of the Company that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options schemes of the Company shall not exceed 100,000,000 shares, which represents 10% of the shares in issue of the Company as at the date of this report. The maximum number of shares issued and to be issued upon exercise of the options granted and to be granted to each grantee under the Share Option Scheme (including exercised, cancelled and outstanding options) in

any 12-month period shall not exceed 1% of the total number of shares in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by its shareholders in accordance with the Listing Rules.

For the six months ended 30 June 2014, the Company granted 60,000,000 share options to certain directors and employees. The exercise price of these share options was HKD6.64 per share, and the aggregate fair value of these share options amounted to RMB138,095,000. These options vest after one year to five years from the date of grant and are then exercisable on or before 23 March 2024.

*(a) The terms and conditions of the grants are as follows:*

<b>Date of grant</b>	<b>Tranche number</b>	<b>Number of options granted</b>	<b>Vesting conditions</b>	<b>Closing price of the share immediately before the date of grant HK\$</b>	<b>Contractual life of options</b>
Options granted to employees:					
28 March 2014	Tranche 1	9,100,000	1 year after the date of grant	5.98	10 years
28 March 2014	Tranche 2	9,100,000	2 years after the date of grant	5.98	10 years
28 March 2014	Tranche 3	10,800,000	3 years after the date of grant	5.98	10 years
28 March 2014	Tranche 4	4,000,000	4 years after the date of grant	5.98	10 years
28 March 2014	Tranche 5	4,000,000	5 years after the date of grant	5.98	10 years
Options granted to directors:					
ZHU Quan					
28 March 2014	Tranche 1	900,000	1 year after the date of grant	5.98	10 years
28 March 2014	Tranche 2	900,000	2 years after the date of grant	5.98	10 years
28 March 2014	Tranche 3	1,200,000	3 years after the date of grant	5.98	10 years
AN Yubao					
28 May 2014	Tranche 6	3,000,000	1 year after the date of grant	6.18	9.8 years
28 May 2014	Tranche 7	3,000,000	2 years after the date of grant	6.18	9.8 years
28 May 2014	Tranche 8	4,000,000	3 years after the date of grant	6.18	9.8 years
LI Qian					
28 May 2014	Tranche 6	3,000,000	1 year after the date of grant	6.18	9.8 years
28 May 2014	Tranche 7	3,000,000	2 years after the date of grant	6.18	9.8 years
28 May 2014	Tranche 8	4,000,000	3 years after the date of grant	6.18	9.8 years
<b>Total share options granted</b>		<b>60,000,000</b>			

(b) *The number and weighted average exercise prices of share options are as follows:*

	<b>Six months ended 30 June 2014</b>	
	<b>Weighted average exercise price HKD</b>	<b>Number of options '000</b>
Outstanding at the beginning of the period	–	–
Granted during the period	<b>6.64</b>	<b>60,000</b>
	<hr/>	<hr/>
Outstanding at the end of the period	<b>6.64</b>	<b>60,000</b>
	<hr/> <hr/>	<hr/> <hr/>
Exercisable at the end of the period	–	–
	<hr/> <hr/>	<hr/> <hr/>

The options outstanding at 30 June 2014 had an exercise price of HKD6.64 and a weighted-average remaining contractual life of 9.8 years.

(c) *Fair value of share options and assumptions:*

The fair value of services received in return for the share options granted is measured by reference to the fair value of share options granted. The estimated fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share options is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model. Set out below are the fair value of share options and assumptions.

	<b>Tranche number</b>							
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
Fair value at measurement date (HK\$)	2.60	2.83	3.04	3.23	3.39	2.57	2.82	3.05
Share price (HK\$)	5.85	5.85	5.85	5.85	5.85	6.01	6.01	6.01
Exercise price (HK\$)	6.64	6.64	6.64	6.64	6.64	6.64	6.64	6.64
Expected volatility	57.98%	57.98%	57.98%	57.98%	57.98%	57.97%	57.97%	57.97%
Expected option life	10 years	10 years	10 years	10 years	10 years	9.8 years	9.8 years	9.8 years
Expected dividends	–	–	–	–	–	–	–	–
Risk-free rate	2.26%	2.26%	2.26%	2.26%	2.26%	1.91%	1.91%	1.91%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under service conditions. The conditions had not been taken into account in the grant date fair value measurement of the services received. There was no market conditions associated with the share option grants.



Apart from the aforesaid share option schemes, at no time during the year ended 30 June 2014 was any of the Company and its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the shares in, or debentures of, the Company, or had exercised any such right.

## Share Award Scheme

The Board of the Company had adopted a Share Award Scheme (“Share Award Scheme”) on 21 July 2014 as a means to recognise the contributions by the Selected Employees and provide them with incentives in order to retain them for the continual operation and development of the Group and attract suitable personnel for the further development of the Group.

Pursuant to the Share Award Scheme, the Selected Employees may be granted during the duration of the Scheme an Award in the form of Awarded Shares. Awarded Shares will be purchased by the Trustee on the market out of cash contributed by the Company and be held on trust for the Selected Employees until such Shares are vested on them in accordance with the provisions of the Scheme. The Board shall not make any further award of Awarded Shares which will result in the nominal value of the Shares awarded by the Board under the Scheme exceeding 10% of the issued share capital of the Company from time to time. The maximum number of shares which may be awarded to a Selected Employee under the Scheme shall not exceed 1% of the issued share capital of the Company from time to time. The Awarded Shares held by the Trustee under the Scheme shall not exceed 2% of the issued share capital of the Company from time to time.

As of the date of this report, no Awarded Share was granted under the Share Award Scheme.

## Directors’ and Chief Executives’ Interests or Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2014, the Directors and chief executives of the Company had the following interests or short positions in the shares, underlying shares and debentures of the Company, its Group members and/or associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code:

### The Company

<b>Name of Director</b>	<b>Nature of Interest and Capacity</b>	<b>Number and Class of Securities<sup>(1)</sup></b>	<b>Approximate Percentage of Shareholding</b>
AN Yu Bao <sup>(2)</sup>	Beneficial Owner	11,344,817 Shares (L)	1.13%
AN Yu Bao <sup>(3)</sup>	Interest of controlled corporation	195,000,000 Shares (L)	19.50%
LI Qian <sup>(2)</sup>	Beneficial Owner	11,119,261 Shares (L)	1.11%
LI Qian <sup>(4)</sup>	Interest of controlled corporation	120,000,000 Shares (L)	12.00%
ZHU Quan <sup>(2)</sup>	Beneficial Owner	3,000,000 Shares (L)	0.30%

*Notes:*

- (1) The letter “L” denotes the Directors’ long position in the shares of the Company or the relevant associated corporation.
- (2) Including shares in relation to 10,000,000 Share Options, 10,000,000 Share Options and 3,000,000 Share Options granted during the period to Mr. AN Yu Bao, Ms. LI Qian and Prof. ZHU Quan respectively under the Share Option Scheme adopted on 2 December 2013.
- (3) The entire issued share capital of Central Success Developments Limited (“Central Success”) is owned by Mr. AN, therefore, Mr. AN is deemed to be interested in all the Shares held by Central Success under the provisions of SFO.
- (4) The entire issued share capital of Double Grace International Limited (“Double Grace”) is owned by Ms. LI, therefore, Ms. LI is deemed to be interested in all the Shares held by Double Grace under the provisions of SFO.

Save as disclosed above, as at the date of the interim report, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company, any of its Group members or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code.

### **Substantial Shareholders’ Interests and/or Short Position in Shares and Underlying Shares of the Company**

As at 30 June 2014, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company, its Group members and/or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

<b>Name of Shareholder</b>	<b>Nature of Interest and Capacity</b>	<b>Number and Class of Securities<sup>(1)</sup></b>	<b>Approximate Percentage of Shareholding (%)</b>
Guidoz Limited <sup>(2)</sup>	Beneficial owner	160,050,000 Shares (L)	16.01 (L)
YOUNG Wai Po, Peter <sup>(2)</sup>	Interest of controlled corporation	160,050,000 Shares (L)	16.01 (L)
Central Success <sup>(3)</sup>	Beneficial owner	195,000,000 Shares (L)	19.50 (L)
Double Grace <sup>(4)</sup>	Beneficial owner	120,000,000 Shares (L)	12.00 (L)
First Kind <sup>(5)</sup>	Beneficial owner	186,750,000 Shares (L)	18.68 (L)
Hony Capital Fund III, L.P. <sup>(5)</sup> (“Hony Capital”)	Interest of controlled corporation	186,750,000 Shares (L)	18.68 (L)

<b>Name of Shareholder</b>	<b>Nature of Interest and Capacity</b>	<b>Number and Class of Securities<sup>(1)</sup></b>	<b>Approximate Percentage of Shareholding (%)</b>
Hony Capital Fund III G.P., L.P. <sup>(5)</sup>	Interest of controlled corporation	186,750,000 Shares (L)	18.68 (L)
Hony Capital Fund III G.P. Limited <sup>(5)</sup>	Interest of controlled corporation	186,750,000 Shares (L)	18.68 (L)
Hony Capital Management Limited <sup>(5)</sup>	Interest of controlled corporation	186,750,000 Shares (L)	18.68 (L)
Hony Managing Partners Limited <sup>(5)</sup>	Interest of controlled corporation	186,750,000 Shares (L)	18.68 (L)
John Huan ZHAO <sup>(5)</sup>	Interest of controlled corporation	186,750,000 Shares (L)	18.68 (L)
Greenwoods Asset Management Holdings Limited <sup>(6)(7)</sup>	Interest of controlled corporation	69,796,000 Shares (L)	6.98 (L)
Greenwoods Asset Management Limited <sup>(6)(7)</sup>	Beneficial owner	69,796,000 Shares (L)	6.98 (L)
JIANG Jinzhi <sup>(6)(7)</sup>	Interest of controlled corporation	69,796,000 Shares (L)	6.98 (L)
Unique Element Corp. <sup>(6)(7)</sup>	Interest of controlled corporation	69,796,000 Shares (L)	6.98 (L)

*Notes:*

- (1) The letter “L” denotes the person’s long position in the shares of the Company or the relevant Group member. The letter “S” denotes the person’s short position in the shares of the Company or the relevant Group member.
- (2) The entire issued share capital of Guidoz Limited is legally and beneficially owned by Mr. YOUNG. By virtue of the SFO, Mr. YOUNG is deemed to be interested in all the Shares held by Guidoz Limited.
- (3) The entire issued share capital of Central Success is legally and beneficially owned by Mr. AN. By virtue of the SFO, Mr. AN is deemed to be interested in all the Shares held by Central Success.
- (4) The entire issued share capital of Double Grace is legally and beneficially owned by Ms. LI. By virtue of the SFO, Ms. LI is deemed to be interested in all the Shares held by Double Grace.

- (5) The entire issued share capital of First Kind International Limited (“First Kind”) is legally and beneficially owned by Hony Capital. Hony Capital is controlled by its sole general partner, Hony Capital Fund III G.P., L.P. Hony Capital Fund III G.P., L.P. is in turn controlled by its sole general partner, Hony Capital Fund III G.P. Limited. Hony Capital Fund III G.P. Limited is wholly owned by Hony Capital Management Limited, which is in turn owned as to 20.0% by Legend Holdings Limited (through its wholly-owned subsidiary, Right Lane Limited) and 80.0% by Mr. John Huan ZHAO (through Hony Managing Partners Limited, a company wholly owned by him). Legend Holdings Limited is ultimately owned as to 36.0% by the Chinese Academy of Sciences (whose interests in Legend Holdings Limited are held through its wholly-owned subsidiary, Chinese Academy of Sciences Holdings Co., Ltd.), 24.0% by 北京聯持志遠管理諮詢中心(有限合夥) (Beijing Lian Chi Zhi Yuan Management Consulting Center Limited Partnership), 20.0% by China Oceanwide Holdings Group Co. Ltd., 8.9% by 北京聯恒永信投資中心(有限合夥) (Beijing Lian Heng Yong Xin Investment Center Limited Partnership), 3.4% by Mr. LIU Chuanzhi (柳傳志), 2.4% by Mr. ZHU Linan (朱立南), 1.8% by Mr. NING Min (寧旻), 1.5% by Mr. HUANG Shaokang (黃少康), 1.0% by Mr. CHEN Shaopeng (陳紹鵬) and 1.9% by Mr. TANG Xudong (唐旭東).
- (6) Greenwood Asset Management Limited controls 6.98% of the Company’s shares through Golden China Master Fund, Greenwood China Alpha Master Fund, Golden China Plus Master Fund Ltd and in the capacity of Manager of the funds. The entire issued share capital of Greenwood Asset Management Limited is legally and beneficially owned by Greenwood Asset Management Holdings Limited. Greenwood Asset Management Holdings Limited is ultimately owned as to 81% by Unique Element Corp which is controlled by Mr. Jiang Jinzhi and 19% by passive investors, including 11% by Private Legend Limited, which is controlled by Zheng Weihe, and 8% by Treasure Manley Limited, which is controlled by Zhong Bing and Guo Xiaomei.
- (7) The Company has been informed by Greenwood Asset Management Limited that it acquired a total of 9,216,000 shares from the market for funds and accounts under its management during the period from 18 February 2014 to 30 June 2014.

Save as disclosed above, as at 30 June 2014, the Directors were not aware of any other persons/entities (other than the Directors and chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company, its Group members or associated corporations which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## **CONTRACTS OF SIGNIFICANCE**

For the six months ended 30 June 2014, the Company or any of its subsidiaries did not enter into any contract of significance with a controlling shareholder.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

For the six months ended 30 June 2014, the Company did not redeem any of its listed securities, and neither did the Company nor any of its subsidiaries purchase or sell any of the Company’s listed securities.

## **TAX RELIEF AND EXEMPTION**

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding the Company's securities.

## **PRE-EMPTIVE RIGHTS**

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

## **CORPORATE GOVERNANCE REPORT**

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

Since the date of Listing, the Company had adopted and complied with the code provisions set out in the corporate governance code (the "Corporate Governance Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## **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 since the date of Listing and up to 30 June 2014.

## **AUDIT COMMITTEE**

The Company established an audit committee (the "Audit Committee") pursuant to a resolution of the Director passed on 2 December 2013 with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. The written terms of reference of the Audit Committee was adopted in compliance with paragraphs C.3.3 and C.3.7 of the Code Provisions. Its terms of reference are available on the websites of the Company and the Stock Exchange.

The Audit Committee reports to the Board and has held regular meetings since its establishment to review and make recommendations to improve the Group's financial reporting process and internal controls. The primary duties of the Audit Committee, among other things, are to make recommendation to the Board on the appointment, reappointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting and overseas internal control procedures of the Company. As at the date of this interim report, the Audit Committee consists of three members and two of them are independent non-executive Directors, namely Ms. CHENG Xinxin (chairlady), Mr. FENG Zhongshi and one nonexecutive Director, namely Mr. WANG Shunlong.

The unaudited interim report of the Group for the six months ended 30 June 2014 has been reviewed by audit committee of the Company and the Company's external auditor KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the HKICPA.

#### **PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE**

This announcement is published on the websites of the Company ([www.chinaconsun.com](http://www.chinaconsun.com)) and the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)), and the interim report of the Company for the six months ended 30 June 2014 will be despatched to Shareholders of the Company and published on the above websites in due course.

By order of the Board  
**Consun Pharmaceutical Group Limited**  
**AN Yubao**  
*Chairman*

Hong Kong, 27 August 2014

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