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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)

CONNECTED TRANSACTIONS

Recently, it has come to the attention of Consun Pharmaceutical Group Limited (the “**Company**” together with its subsidiaries collectively as the “**Group**”) that the Group had conducted certain transactions (collectively the “**Transactions**”) with Zhuhai Kaitesi Biotechnology Co., Ltd.* (珠海凱特斯生物科技有限公司) (“**Zhuhai KTS**”) and certain companies controlled by and associated to Mr. Xu Hanxing (“**Mr. Xu**”) and Ms. Li Qian (“**Ms. Li Qian**”), which constituted connected transactions of the Company. However, the Company does not currently possess all information relating to the Transactions, and is in the process of internal investigation. This announcement is made by the board (the “**Board**”) of directors (the “**Directors**”) of the Company to provide to the shareholders (the “**Shareholders**”) and potential investors of the Company with the latest information available in relation to the Transactions and the actions being and to be taken by the Company.

CONNECTED TRANSACTIONS

Information on Zhuhai KTS

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, an executive Director at all material times of the Transactions with Zhuhai KTS, and 4% by Ms. Li Jiye, sister of Ms. Li Qian. 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 Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). 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.

Transactions with Zhuhai KTS

The transactions between the Group and Zhuhai KTS were spread over four financial years from 2019 to 2022. The aggregate amount involved in all such transactions over the said four financial years was approximately RMB9,113,000, of which the amount involved relating to the service fee incurred in 2020 under the Online Services Agreement (as defined below) and the procurement of skincare products from Zhuhai KTS in 2020 respectively exceeded HK\$3,000,000 (the “**2020 KTS Transactions**”).

(i) Procurement of promotional materials from Zhuhai KTS

According to latest information available, in 2019, the Group has purchased certain promotional materials from Zhuhai KTS, and the Group has paid a total of approximately RMB37,000 to Zhuhai KTS in 2019.

(ii) The Online Services Agreement

Pursuant to an online promotion services agreement (the “**Online Services Agreement**”) dated 7 January 2020 entered into between Zhuhai KTS and the Group, Zhuhai KTS used the Company’s brand names “Consun Pharmaceutical” and “Yulin Pharmaceutical” to establish online shops on major e-commerce platforms operated by other third parties, and sold the Company’s products through such platforms. According to latest information available, the Group has paid a total of approximately RMB5,393,000, RMB240,000 and RMB39,000 to Zhuhai KTS in 2020, 2021 and 2022 respectively for the online sales and promotion services provided by Zhuhai KTS. Such online sales and promotion services were at least partially sub-contracted by Zhuhai KTS to another third party.

(iii) Procurement of Skincare Products from Zhuhai KTS

According to latest information available, in 2020, the Group has purchased certain skincare products from Zhuhai KTS, and the Group has paid a total of approximately RMB3,159,000 to Zhuhai KTS in 2020.

(iv) Sale of Healthcare Products to Zhuhai KTS

According to latest information available, the Group has sold certain healthcare products in the aggregate sale price of approximately RMB245,000 to Zhuhai KTS in 2021.

Based on the current information available to the Group, as one or more of the applicable percentage ratios set out in the Listing Rules in respect of each of the 2020 KTS Transactions exceeded 0.1% but are all less than 5% for the Company at the material time, the entering into of each of the 2020 KTS Transactions is likely subject to the reporting and announcement requirements but exempt from the circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules for the Company.

Other transactions

The Group also entered into transactions with companies controlled by and associated to Mr. Xu and Ms. Li Qian, which are connected persons to the Company. Such transactions involved purchase of skincare and healthcare products and lease of two premises by the Group. Based on the current information available to the Group, as one or more of the applicable percentage ratios set out in the Listing Rules in respect of each of such 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.

INTERNAL SPECIAL AUDIT

The audit and inspection department ("**A&I Department**") of the Company under the audit committee of the Company ("**Audit Committee**") is responsible for conducting regular audits and inspections of subsidiaries of the Group.

From September to October 2023, the A&I Department conducted a special audit task (the "**Special Audit**") on the Group which covered, among others, examination on the management of connected transactions of the Group. The objective of the Special Audit included the review of the system and processes of connected transactions within the Group, the evaluation of the authenticity, reasonableness, fairness, and effectiveness of such transactions, and the determining of the compliance with relevant regulatory requirements.

The A&I Department focused on identifying, within the Group, known or potential connected parties and the actual transactions with them, to ensure compliance with the Listing Rules. Specifically, the focused areas included: (i) the identification of connected parties and related disclosure matters; (ii) the authenticity, reasonableness, and fairness of connected transactions; (iii) the internal control procedures for authorization for approval and execution of connected transactions; and (iv) the existence of connected-party guarantees and fund utilization.

During the Special Audit, the A&I Department implemented the following audit procedures: (i) examination of documents on mechanism of management of connected transactions of the Group; (ii) examination of past declaration records on connected parties by Directors and senior management; (iii) verifying the completeness of declarations on connected parties by conducting check against the Company's employee list and conducting public searches to identify any connected parties that are not disclosed by the Directors and senior management; (iv) reviewing the Company's financial information based on declaration records and verification results mentioned above to ascertain records on connected transactions; (v) substantive examination of specific transactions to assess their reasonableness, fairness, and the effectiveness of controls; and (vi) examination on whether relevant connected transactions were disclosed.

The on-site audit work was concluded on 30 November 2023, and the Transactions were discovered. The A&I Department issued its findings to Mr. Xu Hanxing and Ms. Li Qian on 4 December 2023 and 13 December 2023 respectively for the purpose of seeking further information of the Transactions.

During the Special Audit, the A&I Department conducted a comprehensive audit on the management of connected transactions and had gone through comprehensive audit procedures as discussed above. Particularly, the A&I Department, among other things, examined the past declaration records on connected parties by the Directors and members of the senior management. Under such declaration records, the information provided by the Directors and members of the senior management were divided into two parts: (i) a list of individuals connected to the Directors and members of the senior management as set out under Chapter 14A of the Listing Rules (the “**Connected Individuals**”); and (ii) a list of the companies that the Director or the member of the senior management concerned and the Connected Individuals have interest in (the “**Connected Companies**”). Based on the list of Connected Individuals provided, the A&I Department conducted public searches to identify the companies that the Connected Individuals have interests in and the Connected Individuals have directorship (the “**Search Results**”). The A&I Departments then cross checked the list of Connected Companies provided by the Directors or the member of the senior management concerned against the Search Results and checked if there were any discrepancies. Where there were discrepancies, the A&I Department further requested explanations from the Director/the member of the senior management concerned to ensure the completeness and correctness of the list of Connected Companies.

The result of the Special Audit showed no indication there were any undisclosed transactions which were required to be disclosed under the Listing Rules other than the Transactions. As a result, the Company is of the view that the Special Audit was a sufficient measure to identify undisclosed transactions and believes that there is no other undisclosed transaction which were required to be disclosed under the Listing Rules in addition to the Transactions.

INVESTIGATION COMMITTEE

An investigation committee (the “**Investigation Committee**”) comprising all independent non-executive Directors, which is led by Ms. Chen Yujun, has been established to investigate the details of the Transactions including the background, the reasons of entering into the Transactions, the fairness and reasonableness of the Transactions and whether there was any misappropriation of the Company’s resources. Biography of the members of the Investigation Committee are as follows:

(a) Ms. Chen Yujun (陳玉君)

Ms. Chen, aged 43, is an Independent Non-Executive Director. She was appointed as an Independent Non-Executive Director with effect from 31 May 2019. Ms. Chen has nearly 20 years of experience in auditing, accounting and corporate finance. She has been a member of the Chinese Institute of Certified Public Accountants since 2010 and obtained a bachelor’s degree in arts and a bachelor’s degree in management from Guangdong University of Foreign Studies* (廣東外語外貿大學) in 2005. Ms. Chen has been the chief financial officer of Guangdong Gosun Medical Imaging Technology Group Co., Ltd.* (廣東高尚醫學影像科技集團有限公司) since May 2022. Prior to that, she worked with Huabang Holdings Group Co., Ltd.* (華邦控股集團有限公司) as the financial controller of financial management center from November 2021 to May 2022; worked with Guangzhou Fineland Real Estate Development Co., Ltd.* (廣州市方圓房地產發展有限公司) as the vice general manager

of the financial management center from February 2018 to September 2021; worked with Shanghai Eyugame Network Technology Co., Ltd.* (上海易娛網絡科技有限公司) as the chief financial officer from March 2016 to February 2018; worked with the Group as the chief financial officer from April 2014 to March 2016 and as deputy chief financial officer from May 2013 to March 2014; and worked with KPMG in the audit department from July 2005 to May 2012 at various posts.

(b) Mr. Su Yuanfu (蘇元福)

Mr. Su, aged 77, is an Independent Non-Executive Director. He was appointed as an Independent Non-Executive Director with effect from 2 December 2013. Mr. Su graduated from the Fourth Military Medical University of the People's Liberation Army of the PRC* (中國人民解放軍第四軍醫大學) in December 1969 and obtained a master's degree in radiopathology at the same university in December 1982. Mr. Su served various positions at the People's Liberation Army of the PRC. From January 1970 to August 1979, he served as a doctor at General Hospital of Tibet Military Region* (西藏軍區總醫院). Between January 1984 and November 1995, Mr. Su served as the director of science and research office, the dean of academic affairs, the deputy superintendent and superintendent of the first affiliated hospital respectively at the Fourth Military Medical University of the People's Liberation Army of the PRC. From November 1995 to June 1998, he served as the director general of Technology Training Bureau of the Department of Health of the General Logistics Department* (總後勤部衛生部科訓局). Between June 1998 and June 2004, Mr. Su served as the director of the department of medical administration and the deputy superintendent respectively at the General Hospital of the People's Liberation Army* (解放軍總醫院). Mr. Su has been a standing director of Chinese Hospital Association* (中國醫院協會) during the period from 2004 to 2019.

(c) Mr. Feng Zhongshi (馮仲實)

Mr. Feng, aged 64, is an Independent Non-Executive Director. He was appointed as an Independent Non-Executive Director with effect from 2 December 2013. Mr. Feng is a lawyer qualified in the PRC. He is currently a full-time lawyer of Beijing V&T Law Firm (北京萬商天勤律師事務所). He graduated from China University of Political Science and Law* (中國政法大學) in July 1986 with a bachelor's degree in law. From July 1986 to January 1993, Mr. Feng worked at the Department of Justice of Inner Mongolia Autonomous Region* (內蒙古自治區司法廳). He served as a lawyer at Inner Mongolia Jingji Law Office* (內蒙古經濟律師事務所) (now known as Jingshi Law Office* (經世律師事務所)) from 1993 to 1995. Between 1996 and 2002, Mr. Feng served as a partner at Inner Mongolia Huicong Law Office* (內蒙古慧聰律師事務所). From 1996 to 2003, he also served as the head of legal department of Beijing Hui Cong International Information Co., Ltd.* (北京慧聰國際資訊有限公司). Between 2002 and 2009, Mr. Feng served as a lawyer of Beijing Zhong Rui Law Firm* (北京市中瑞律師事務所). Between June 2011 and January 2013, he served as a partner of Beijing Jin Li Law Firm* (北京市金勵律師事務所). Between February 2013 and February 2021, he served as a partner of Beijing GaoJie Law Firm* (北京市高界律師事務所).

The scope of work of the Investigation Committee are as follows:

- (i) further ascertaining the correctness and completeness of the information provided by the Directors in relation to the Transactions and identifying any undisclosed connected transactions which were required to be disclosed under the Listing Rules other than the Transactions (the “**Undisclosed Transactions**”), measures for which include: (a) providing a training session to the Directors, Ms. Li Qian and the members of the senior management on connected transactions under Chapter 14A of the Listing Rules; (b) requesting the Directors and the members of the senior management to update their list on their Connected Individuals and Connected Companies respectively after the training session. In the event that there are newly added Connected Individuals and/or Connected Companies, the Investigation Committee would conduct public searches to identify the companies that the newly added Connected Individuals have interests in and the Connected Individuals have directorship. The Investigation Committee would then cross check the list of Connected Companies provided by the Directors or senior management concerned against the search results and see if there were any discrepancies. Where there were discrepancies, the Investigation Committee would further request explanations from the Director/senior management concerned to ensure the completeness and correctness of the list of Connected Companies; (c) where the lists of the Connected Individuals and Connected Companies are finalized, requesting the Directors and members of the senior managements to respectively provide a statutory declaration on the completeness and correctness of the list of their Connected Individuals and Connected Companies; and (d) in the event that there are newly identified Connected Individuals and/or Connected Companies, the Investigation Committee would cross check 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;
- (ii) reviewing the transaction and supporting documents including internal and external correspondence, agreements, payment records and approval records relating to the Transactions and Undisclosed Transactions (if later identified in the result of the investigation by the Investigation Committee);
- (iii) conducting interviews with relevant personnel involved in order to understand the reasons of the entering of the Transactions and the occurrence of the Transactions being not reported to and approved by the Board at the material time;
- (iv) analyzing findings from the IC Consultant on any possible internal control deficiencies in respect of the Transactions and Undisclosed Transactions (if later identified in the result of the investigation by the Investigation Committee) and the internal control policy of the Group as a whole;

- (v) analyzing findings from the IFA on (a) the reasons for entering into the Transactions and Undisclosed Transactions (if later identified in the result of the investigation by the Investigation Committee) and whether there was any misappropriation of the Company's resources; (b) the fair and reasonableness of the Transactions and Undisclosed Transactions (if later identified in the result of the investigation by the Investigation Committee); and (c) whether the Directors involved are suitable to be a director; and with reference to Rules 3.08 and 3.09 under the Listing Rules; and
- (vi) ascertaining the impact of the Transactions and Undisclosed Transactions (if later identified in the result of the investigation by the Investigation Committee) to the Group and determining on what remedial actions are needed with reference to the advice from the IC Consultant.

The Investigation Committee has engaged Silver Nile Global Investments Limited as an independent financial adviser (the "IFA") to assist the Investigation Committee in conducting the investigation, review and assess the reasons of entering into the Transactions and advise the Investigation Committee on whether the commercial terms of the Transactions were fair and reasonable and on normal commercial terms, and whether the Transactions were in the interests of the Company and the Shareholders as a whole.

The scope of work of the IFA includes:

- (i) review the transaction and supporting documents including internal and external correspondence, agreements, payment records and approval records relating to the Transactions and Undisclosed Transactions (if later identified in the result of the investigation by the Investigation Committee);
- (ii) conducting interviews with relevant personnel involved in order to understand the reasons of the entering of the Transactions and the occurrence of the Transactions being not reported to and approved by the Board at the material time; and
- (iii) advising the Investigation Committee on (a) the reasons for entering into the Transactions and Undisclosed Transactions (if later identified in the result of the investigation by the Investigation Committee) and whether there was any misappropriation of the Company's resources; (b) the fair and reasonableness of the Transactions and Undisclosed Transactions (if later identified in the result of the investigation by the Investigation Committee); and (c) whether the Directors involved are suitable to be a director; and with reference to Rules 3.08 and 3.09 under the Listing Rules.

The Investigation Committee is of the view that the scope of work of the Investigation Committee and the IFA is sufficient for the Investigation Committee to form a view on (a) the reasons for entering into the Transactions and Undisclosed Transactions (if later identified in the result of the investigation by the Investigation Committee) and whether there was any misappropriation of the Company's resources; (b) the fair and reasonableness of the Transactions and Undisclosed Transactions (if later identified in the result of the investigation by the Investigation Committee); and (c) whether the Directors involved are suitable to be a director; and with reference to Rules 3.08 and 3.09 under the Listing Rules.

It is currently expected that the internal investigation will be completed in around mid-April 2024, and the Company will make further announcement(s) as and when appropriate.

As the Transactions involved entities which are connected with Ms. Li Qian and Mr. Xu, a former executive Director (who resigned from directorship and all her other positions with the Group on 17 January 2024 due to her health reasons) and an executive Director, as well as the sister and nephew of Ms. Li Qian and the spouse of Mr. Xu, the Board has communicated with Mr. Xu and resolved to suspend Mr. Xu from all his powers and duties as a Director with effect from 17 January 2024 until completion of the investigation by the Investigation Committee and determination of the corresponding remedial actions by the Board (other than Mr. Xu). For sake of prudence, the independent non-executive Directors shall form a view on the suitability of Mr. Xu to continue to act as Director when the investigation by the Investigation Committee is completed, and if considered appropriate, may resume Mr. Xu's powers and duties. At this stage, the Board (other than Mr. Xu) considers that the Company has adopted sufficient measures to safeguard the Company's assets pending completion of the said investigation.

The Company has also engaged an internal control consultant (the "**IC Consultant**") to review the occurrence of the Transactions from an internal control perspective and to identify the relevant deficiencies of internal control policies of the Group, if any and provide recommendations on improvement. At this stage the Board is not able to take a view on whether the current internal control system is adequate and effective. Upon review of the final report to be prepared by the IC Consultant, the Board (other than Mr. Xu) shall formulate such view and make further announcement(s) as and when appropriate.

In addition, the audit committee of the Company has communicated with its auditors, KPMG, about the Transactions and the course of actions to be taken by the Company. KPMG has confirmed that at this stage they consider there will be no material impact on their audit timetable for the financial year ended 31 December 2023.

Given that:

- (i) the Company's auditors have assessed and tested the Company's key internal control systems and processes during the annual audits since its listing and have not identified any significant deficiencies in the internal controls;
- (ii) the Company has a sound financial condition, which is illustrated in its financial statements. In comparison to peer companies, there have been no abnormal fluctuations in revenue, costs, expenses or profits, and the Company has maintained stable dividends over the years. The likelihood of any significant impact on the financial statements is minimal;
- (iii) the amounts involved in the Transactions were small having considered the size and the financial conditions of the Group;
- (iv) during the Special Audit, the A&I Department conducted a comprehensive audit on the management of connected transactions and had gone through comprehensive audit procedures as discussed above, and the Investigation Committee will further ascertain the correctness and completeness of the information provided by the Directors in relation to the Transactions and identifying any Undisclosed Transactions under its scope of work as set out above; and
- (v) forensic investigations are generally conducted when a company experiences significant events. Based on the information currently available to the Group and the communication with the Company's auditors, the Transactions are not expected to have a significant impact on the financial statements of the Group. Through the communication with the Directors involved in the Transactions, the Company understands that the occurrence of the Transactions was mainly due to their negligence on the compliance of the Listing Rules,

the independent non-executive Directors are of the view that it is not necessary to conduct a forensic investigation into the Transactions and it is sufficient to engage the IFA for investigation and the IC Consultant for reviewing the occurrence of Transactions.

The information set out in this announcement only reflects the current understanding of the Company at this stage based on the latest information available. Further announcement(s) on the findings in connection with the Transactions by the Investigation Committee, the IFA and the IC Consultant will be made as and when appropriate.

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

Hong Kong, 20 February 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. Su Yuanfu, Mr. Feng Zhongshi and Ms. Chen Yujun as independent non-executive Directors.