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Fusen Pharmaceutical Company Limited

福森藥業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1652)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board of directors (the “**Board**”) of Fusen Pharmaceutical Company Limited (the “**Company**”) is pleased to announce the unaudited interim results of the Company and its subsidiaries for the six months ended 30 June 2019, together with the comparative figures for the corresponding period in 2018.

FINANCIAL HIGHLIGHTS

- Our revenue decreased by approximately 27.8% from approximately RMB271.9 million in the first half of 2018 to approximately RMB196.4 million in the first half of 2019.
- Our gross profit decreased by approximately 28.2% from approximately RMB148.9 million for the first half of 2018 to approximately RMB106.8 million for the first half of 2019.
- The Board declared an interim dividend of RMB0.30 cents per ordinary share (interim dividend for the first half of 2018: RMB0.54 cents) with a dividend payout ratio of 10.0%.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019 — unaudited

		Six months ended 30 June	
		2019	2018
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	196,437	271,907
Cost of sales		<u>(89,616)</u>	<u>(123,052)</u>
Gross profit		106,821	148,855
Other net income		8,489	10,572
Selling and distribution expenses		(56,891)	(56,057)
General and administrative expenses		(25,915)	(28,533)
Profit from operations		32,504	74,837
Finance income		884	785
Finance costs		(5,814)	(9,228)
Net finance costs	5	(4,930)	(8,443)
Profit before taxation		27,574	66,394
Income tax	6	(3,842)	(12,905)
Profit for the period		23,732	53,489
Profit for the period attributable to:			
Equity shareholders of the Company		23,655	53,498
Non-controlling interests		77	(9)
Profit for the period		23,732	53,489
Other comprehensive income for the period (after tax)			
<i>Item that may be reclassified subsequently to profit or loss</i>			
— Exchange differences on translation of financial information of entities outside mainland China		625	(230)
Total comprehensive income for the period		24,357	53,259
Earnings per share			
Basic and diluted (RMB cents)	7	3	9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019 — unaudited

		30 June 2019	31 December 2018
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	8	149,048	154,445
Land use rights	9	–	116,625
Right-of-use assets	9	251,781	–
Intangible assets	15	21,497	1,283
Goodwill	15	5,098	–
Deferred tax assets		4,570	4,840
Other assets		2,259	2,304
		<u>434,253</u>	<u>279,497</u>
Current assets			
Inventories	10	100,233	140,787
Trade receivables	11	142,790	120,344
Prepayments and other receivables		90,450	47,819
Restricted guarantee deposits		10,655	13,707
Cash and cash equivalents		320,758	561,108
		<u>664,886</u>	<u>883,765</u>
Current liabilities			
Trade and bills payables	12	86,363	137,623
Contract liabilities		6,522	6,165
Accruals and other payables		180,924	193,334
Bank loans		170,000	100,000
Current taxation		1,491	13,877
		<u>445,300</u>	<u>450,999</u>
Net current assets		<u>219,586</u>	<u>432,766</u>
Total assets less current liabilities		<u>653,839</u>	<u>712,263</u>

		30 June 2019	31 December 2018
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities			
Deferred income		7,097	4,472
Bank loans		–	90,000
Deferred tax liabilities		7,204	1,692
		<u>14,301</u>	<u>96,164</u>
NET ASSETS		<u>639,538</u>	<u>616,099</u>
CAPITAL AND RESERVES			
Share capital	13	6,732	6,732
Reserves		625,707	607,203
		<u>632,439</u>	<u>613,935</u>
Total equity attributable to equity shareholders of the Company		7,099	2,164
Non-controlling interests		<u>7,099</u>	<u>2,164</u>
TOTAL EQUITY		<u>639,538</u>	<u>616,099</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 — unaudited

Note	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Statutory surplus reserves	Other reserves	Exchange reserves	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2019	6,732	384,263	54,071	(12,769)	12,430	169,208	613,935	2,164	616,099
Profit for the period	—	—	—	—	—	23,655	23,655	77	23,732
Other comprehensive income	—	—	—	—	625	—	625	—	625
Total comprehensive income for the period	—	—	—	—	625	23,655	24,280	77	24,357
Acquisition of non-controlling interests in a subsidiary	—	—	—	144	—	—	144	(174)	(30)
Acquisition of a subsidiary	15	—	—	—	—	—	—	5,074	5,074
Dividends declared	14(b)	(5,920)	—	—	—	—	(5,920)	—	(5,920)
Distribution to non-controlling interests	—	—	—	—	—	—	—	(42)	(42)
Balance at 30 June 2019	6,732	378,343	54,071	(12,625)	13,055	192,863	632,439	7,099	639,538

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Statutory surplus reserves	Other reserves	Exchange reserves	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2018	1,274	69,586	42,765	(12,769)	(173)	78,632	179,315	2,212	181,527
Profit for the period	—	—	—	—	—	53,498	53,498	(9)	53,489
Other comprehensive income	—	—	—	—	(230)	—	(230)	—	(230)
Total comprehensive income for the period	—	—	—	—	(230)	53,498	53,268	(9)	53,259
Distribution to non-controlling interests	—	—	—	—	—	—	—	(75)	(75)
Balance at 30 June 2018	1,274	69,586	42,765	(12,769)	(403)	132,130	232,583	2,128	234,711

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2019 — unaudited*

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Operating activities		
Cash (used in)/generated from operations	(12,430)	22,067
PRC income tax paid	(15,525)	(13,256)
Net cash (used in)/generated from operating activities	(27,955)	8,811
Investing activities		
Payment for the purchase of property, plant and equipment	(3,555)	(10,864)
Payment for the purchase of land use rights	(136,680)	—
Other cash flows (used in)/generated from investing activities	(47,492)	12,106
Net cash (used in)/generated from investing activities	(187,727)	1,242
Financing activities		
Borrowing costs paid	(4,016)	(9,713)
Distribution to non-controlling interests	(42)	—
Dividends paid	(1,235)	—
Repayment of bank loans, net	(20,000)	(112,622)
Net cash used in financing activities	(25,293)	(122,335)
Net decrease in cash and cash equivalents	(240,975)	(112,282)
Cash and cash equivalents at 1 January	561,108	474,621
Effect of foreign exchange rate changes	625	287
Cash and cash equivalents at end of period	320,758	362,626

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 ORGANIZATION AND PRINCIPLE ACTIVITIES

The Company was incorporated in the Cayman Islands on 18 January 2013 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands.

The Company and its subsidiaries (together, “**the Group**”) are principally engaged in manufacturing and sale of pharmaceutical products.

On 11 July 2018, the Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

2 BASIS OF PREPARATION

This condensed consolidated interim financial information 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 International Accounting Standard (“**IAS**”) 34, Interim financial reporting, issued by the International Accounting Standards Board (“**IASB**”). It was authorised for issue on 30 August 2019.

The condensed consolidated interim financial information has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements extracted, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of condensed consolidated interim financial information in conformity with IAS 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.

This condensed consolidated interim financial information 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 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, Leases (“IFRS 16”), and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

IFRS 16 replaces IAS 17, Leases (“IAS 17”), and the related interpretations, IFRIC 4, Determining whether an arrangement contains a lease, SIC 15, Operating leases — incentives, and SIC 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach to recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Except for prepaid lease prepayment for land use rights which was presented in “right-of-use assets” in the consolidated statement of financial position, the Group’s leases are mostly short-term leases or of low value assets as at 1 January 2019 and during the six months ended 30 June 2019, thus adoption of IFRS 16 haven’t had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this condensed consolidated interim financial information, as well as the other IFRS developments mentioned above. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

The principal activities of the Group are the manufacturing and sale of pharmaceutical products.

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

	Six months ended 30 June	
	2019	2018
	RMB’000	RMB’000
Shuanghuanglian Oral Solutions	99,891	141,849
Shuanghuanglian Injections	36,879	66,692
Others	59,667	63,366
	<u>196,437</u>	<u>271,907</u>

The Group’s customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group’s revenue during the six months ended 30 June 2019 and 2018.

(b) Segment information

The Group has one reportable segment. The Group’s revenue is substantially generated from the sales of Shuanghuanglian Oral Solutions and Shuanghuanglian Injections to customers in the PRC. The Group’s operating assets and non-current assets are substantially situated in the PRC. Accordingly, no segment analysis on geographical information is provided.

5 NET FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Finance income	884	785
Less: Finance costs		
— Interest on bank loans	3,982	9,713
— Net foreign exchange loss/(gain)	1,832	(485)
	<u>1,832</u>	<u>(485)</u>
Net finance costs	<u>(4,930)</u>	<u>(8,443)</u>

6 INCOME TAX

Amounts recognised in profit or loss:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Current tax expense-the PRC Enterprise Income Tax		
Provision for the period	3,139	12,336
Deferred tax		
Origination and reversal of temporary differences	703	569
	<u>703</u>	<u>569</u>
	<u>3,842</u>	<u>12,905</u>

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

The Group has no assessable profit in Hong Kong during the six months ended 30 June 2019 and 30 June 2018, respectively, and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate during the reporting periods is 16.5%.

In accordance with the Enterprise Income Tax Law (“**Income Tax Law**”) of the PRC, enterprise income tax rate for the Group’s PRC subsidiaries during the six months ended 30 June 2019 is 25% (2018: 25%).

According to the relevant PRC income tax law, the Company’s subsidiary, Henan Fusen Pharmaceutical Company Limited (“**Henan Fusen Pharmaceutical**”) was certified as a New and High Technology Enterprise since 2012, and is entitled to a preferential income tax rate of 15%, which has been applied for each of the six months ended 30 June 2019 and 2018. The current certification of New and High Technology Enterprise held by Henan Fusen Pharmaceutical will be expired on 12 September 2021.

According to the Income Tax Law and its implementation rules, dividends receivable by non-PRC resident corporate investors from PRC-residents are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. The Group has adopted the 10% withholding tax rate for PRC withholding tax purposes.

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB23,655,000 (six months ended 30 June 2018: RMB53,498,000) and weighted average of 800,000,000 ordinary shares (2018:600,000,000 shares) in issue during the interim period.

There were no dilutive potential ordinary shares during the six months ended 30 June 2019 and 2018 and, therefore, diluted earnings per share are the same as the basic earnings per share.

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019 and 2018, the Group acquired items of property, plant and equipment with a cost of RMB2,544,000 and RMB5,067,000 respectively. Property, plant and equipment with a cost of RMB721,000 (2019: Nil) was disposed of during the six months ended 30 June 2018.

As at 30 June 2019, certain of the Group's bank borrowings were secured by the Group's property, plant and equipment and right-of-use assets/land use rights, which had an aggregate carrying amount of RMB77,212,000 as at 30 June 2019 (31 December 2018: RMB79,688,000).

9 RIGHT-OF-USE ASSETS/LAND USE RIGHTS

During the six months ended 30 June 2019, the addition of right-of-use assets mainly represent lease prepayment for land use right in the PRC.

On 29 March 2019, Henan Fusen Pharmaceutical signed a deal conclusion letter with Xichuan Natural Resources Bureau* (浙川縣自然資源局), on the acquisition of certain land use right in the PRC through the tendering, auction and listing of state-owned land use right. The total acquisition price is agreed at RMB132,620,000. As at 30 June 2019, Henan Fusen Pharmaceutical was applying for the relevant land use certification.

10 INVENTORIES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Raw materials	39,259	54,577
Work in progress	13,103	13,217
Finished goods	47,871	72,993
	<u>100,233</u>	<u>140,787</u>

11 TRADE RECEIVABLES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Bills receivable*	76,341	59,770
Trade debtors	71,918	66,760
Less: allowance for doubtful debts	(5,469)	(6,186)
	66,449	60,574
	142,790	120,344

* As at 30 June 2019 and 31 December 2018, the Group's bills receivable of RMB31,752,000 and RMB50,494,000 were endorsed to suppliers, which were included in the balances, respectively. As the Group has not transferred the substantial risks and rewards relating to these bills receivable, the Group's management determined not to derecognise the carrying amounts of these bills receivable and the associated trade payables settled.

Ageing analysis

Bills receivable are bank acceptance bill received from customers, with expiration dates within 12 months.

As of the end of the reporting period, the ageing analysis of trade debtors based on the invoice date (or date of revenue recognition, if earlier), is as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Current to 3 months	49,314	37,343
3 to 6 months	13,195	15,954
6 to 12 months	3,629	6,982
Over 12 months	311	295
	66,449	60,574

The credit terms agreed with customers were normally ranged from 1 month to 6 months from the date of billing. No interests are charged on the trade receivables.

12 TRADE AND BILLS PAYABLES

As of the end of the reporting period, the ageing analysis of trade and bills payables, based on the date of goods or services that have been acquired in the ordinary course of business from suppliers, is as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Current to 3 months	50,228	113,082
3 to 6 months	8,716	10,250
6 to 12 months	16,512	6,166
More than 1 year	10,907	8,125
	<u>86,363</u>	<u>137,623</u>

All trade payables are expected to be settled within one year.

13 SHARE CAPITAL

	2019 No. of shares	Amount RMB'000
Authorised-ordinary shares of HK\$0.01 each: At 1 January and 30 June	<u>2,000,000,000</u>	<u>16,354</u>
Ordinary shares, issued and fully paid: At 1 January and 30 June	<u>800,000,000</u>	<u>6,732</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

14 DIVIDENDS

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

	2019 RMB'000	2018 RMB'000
Interim dividend declared after the interim period of RMB0.30 cents (equivalent to HKD0.33 cents) per share (2018: RMB0.54 cents (equivalent to HKD0.62 cents) per share)	<u>2,400</u>	<u>4,320</u>

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

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB0.74 cents (equivalent to HKD0.86 cents) per ordinary share	<u>5,920</u>	<u>N/A</u>

15 ACQUISITION OF A SUBSIDIARY

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date. The interest of non-controlling ("NCI") shareholders in the acquiree is initially measured at the its proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

On 1 February 2019, Cloud Dollar Investments Limited, a wholly-owned subsidiary of the Company, entered into a capital injection agreement to acquire 50% of the equity interest in Beijing Sanye Mingming Pharmaceutical Technology Company Limited* (北京三也明明醫藥科技有限公司) ("**Sanye Mingming**"), a company established in the PRC with limited liability and principally engaged in research and development of pharmaceutical products.

The acquisition was completed on 30 June 2019. The Group obtained the control of Sanye Mingming and Sanye Mingming became a subsidiary of the Company.

(a) Consideration transferred

The following table summarizes the acquisition-date fair value of each major class of consideration transferred.

	<i>Note</i>	<i>RMB'000</i>
Cash		1,390
Contingent consideration payable	<i>i</i>	<u>8,782</u>
Total consideration transferred		<u>10,172</u>

i Contingent consideration

The Group and the original shareholders have agreed to make capital injection which amounted to RMB26,000,000 and RMB6,000,000 respectively. On acquisition date, the unpaid amount of capital injection by the Group amounted to RMB24,610,000, which shall be made if certain obligations/conditions were fulfilled. The Group has included RMB8,782,000 as contingent consideration related to the unpaid amount of the capital injection, which represented its fair value at the date of acquisition.

(b) Acquisition-related costs

The Group incurred acquisition-related costs of RMB978,000 on legal fees and due diligence costs. These costs have been included in “General and administrative expenses” in the consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2019.

(c) Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	Fair value of net identifiable assets acquired as at the acquisition date <i>Amount</i> <i>RMB'000</i>
Intangible assets	20,314
Cash and cash equivalents	1,378
Prepayments and other receivables	1,614
Accruals and other payables	(8,079)
Deferred tax liabilities	(5,079)
Total identifiable net assets acquired	10,148

(d) Goodwill

	As at 30 June 2019 <i>Amount</i> <i>RMB'000</i>
Total consideration transferred	10,172
NCI, based on their proportionate interest in the recognised amounts of the assets and liabilities of Sanye Mingming	5,074
Fair value of identifiable net assets	(10,148)
Goodwill	5,098

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses.

Goodwill is attributable mainly to the skills and technical talent of Sanye Mingming's work force and the synergies expected to be achieved from integrating Sanye Mingming into the Group's existing research and development efforts. None of the goodwill recognised is expected to be deductible for tax purposes.

For capital injection of Sanye Mingming, the Group elect to measure non-controlling interests at the non-controlling interests' proportionate share of the Sanye Mingming's net identifiable assets. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Our revenue and gross profit for the first half of 2019 were approximately RMB196.4 million and RMB106.8 million, representing a decrease of approximately 27.8% and 28.2% respectively as compared with the corresponding period of 2018. With the implementation of a series of pharmaceutical reform policies, the pharmaceutical industry is suffering from the cut-throat competition. The decrease in revenue was mainly attributable to the decrease in sales volume in our products. However, the Group's average gross profit margin ratio, approximately 54.4% for the first half of 2019 (approximately 54.7% for the first half of 2018), remained stable. Since the second half of 2018, the Group restructured sales regime and optimized the distributors, which is contributable to the decrease in commissions. Meanwhile, much more expenses were used for advertising and expansion of marketing and distribution networks. The Group's profit attributable to the equity shareholders of the Group was approximately RMB23.7 million, representing a decrease of approximately 55.8% as compared with the corresponding period of 2018 as a result of the decline of products sales volume.

Prospects

With the gradual implementation of various new medical reform policies, the pharmaceutical industry in the PRC is ushering in new competition rules and development opportunities. We will continually enhance our investments in the fields of research and development, especially in generic drugs. On 12 July 2019, the Company, through its wholly owned subsidiary, entered into an acquisition agreement to acquire 51% of the equity interests in Jiangxi Yongfeng Kangde Pharmaceutical Company Limited* (江西永豐康德醫藥有限公司). The Group will enrich its sales products through acquisition or cooperation with other entities. The management of the Company is well aware of the challenges and opportunities brought to the Group by the changes in the pharmaceutical industry. We will continue to enhance the competitiveness of the Group in the fields of research and development, sales and production.

Financial Review

Sales performance

	Unaudited				
	Six months ended 30 June				
	2019		2018		
	Revenue	% of	Revenue	% of	Changes
	RMB'000	total	RMB'000	total	%
Shuanghuanglian Oral Solutions (10 ml)	72,043	36.7%	106,290	39.1%	-32.2%
Shuanghuanglian Oral Solutions (20 ml)	27,848	14.2%	35,559	13.1%	-21.7%
Subtotal	99,891	50.9%	141,849	52.2%	-29.6%
Shuanghuanglian Injections	36,879	18.8%	66,692	24.5%	-44.7%
Compound Ferrous Sulfate Granules	9,580	4.9%	11,103	4.1%	-13.7%
Flunarizine Hydrochloride Capsules	7,118	3.6%	10,375	3.8%	-31.4%
Others products	42,969	21.9%	41,888	15.4%	2.6%
Subtotal	96,546	49.1%	130,058	47.8%	-25.8%
Total	196,437	100%	271,907	100%	-27.8%

Our revenue decreased by approximately 27.8% from approximately RMB271.9 million in the first half of 2018 to approximately RMB196.4 million in the first half of 2019, primarily due to the decrease in sales volume.

Among our product categories, revenue from sales of Shuanghuanglian Oral Solutions decreased by approximately 29.6% from approximately RMB141.8 million in the first half of 2018 to approximately RMB99.9 million in the first half of 2019, was mainly attributable to an approximately 37.4% decrease in sales volume during the first half of 2019 when compared with the same period in 2018. It was netting of the increase in average selling price by approximately 12.6% when compared with the same period in 2018. Revenue from sales of Shuanghuanglian Injections decreased approximately 44.7% from approximately RMB66.7 million in the first half of 2018 to approximately RMB36.9 million in the first half of 2019, was mainly attributable to the decrease in sales volume by approximately 55.6%. Our revenue from other products slightly increase by approximately 2.6% from approximately RMB41.9 million in the first half of 2018 to approximately RMB43.0 million in the first half of 2019, was mainly attributable to our continuous promotions.

Gross profit and margin

Our gross profit decreased by approximately 28.2% from approximately RMB148.9 million for the first half of 2018 to approximately RMB106.8 million for the first half of 2019. The decrease in gross profit is inline with the approximately 27.8% decrease in total revenue for the first half of 2019 and the stable gross profit margin of approximately 54.4% for the first half of 2019 (approximately 54.7% for the first half of 2018).

Other net income

Our other net income primarily consists of net material and scrap sales income, rental income, income from write-off of long-outstanding payables, government grants and others.

Selling and distribution expenses

Our selling and distribution expenses primarily consist of commission, advertisement, wages and salaries, promotion expenses, distribution expenses and others. In the first half of 2018 and 2019, our selling and distribution expenses amounted to approximately RMB56.1 million and RMB56.9 million respectively, representing approximately 20.6% and 29.0% of our revenue for the respective periods. The slight increase was mainly attributable to the increase in advertisement expenses offsetting the decrease in commission. Since the second half of 2018, the Group restructured sales regime by reducing cooperation with small-sized distributors. The Group gradually made the sales channels concentrating on the hands of national or regional leading distributors and those with end-sales capability. This lead to the decrease in commission. In the meanwhile, much more expenses were used for advertising and marketing of sales products and expansion of marketing and distribution networks.

General and administrative expenses

General and administrative expenses primarily consist of wages and salaries, depreciation, professional fee, research and development costs, and others.

The decrease of general and administrative expenses by approximately RMB2.6 million was mainly attributable to: 1) professional fee was decreased by the approximately RMB5.1 million as the fee incurred for listing of the Company in the first half of 2018 was non-recurring in the first half of 2019, and 2) research and development expenses was increased by the approximately RMB2.5 million.

Net finance costs

Our net finance costs represent finance income, which includes interest income derived from bank deposits, less finance costs, which includes interest on bank loans and foreign exchange loss.

The net finance cost was decreased from approximately RMB8.4 million in the first half of 2018 to approximately RMB4.9 million in the first half of 2019 respectively, primarily due to decrease in borrowings from banks.

Income tax

Income tax primarily represents income tax payable by the Group under relevant PRC income tax rules and regulations. Henan Fusen Pharmaceutical, our subsidiary, was certified as a High New Technology Enterprise in Henan province and has been entitled to a preferential income tax rate of 15%. In the first half of 2018 and 2019, our effective tax rate was 19.4% and 13.9%, respectively.

Capital Expenditures

The Group's capital expenditures primarily consist of payments and deposits for purchase of property, plant and equipment, land use rights and intangible assets. In the first half of 2019, the total capital expenditure was approximately RMB140.2 million (the first half of 2018: approximately RMB5.1 million). The capital expenditures during the period were mainly incurred for the lease prepayment for a land use right and the acquisition of production equipment and enhancement of existing production line.

Bank and Other Loans

As at 30 June 2019, the Group's short-term borrowings and long-term borrowings amounted to approximately RMB170.0 million (31 December 2018: approximately RMB190.0 million).

	As at 30 June 2019 RMB'000 (Unaudited)	As at 31 December 2018 RMB'000 (Audited)
Short-term borrowings	170,000	100,000
Long-term borrowings	<u>—</u>	<u>90,000</u>
Total	<u>170,000</u>	<u>190,000</u>

The decrease in bank loans primarily represented loan repayment made during the first half of 2019. The Group's bank borrowings are denominated in Renminbi.

Capital Structure

The Group's capital structure consists of equity interest attributable to shareholders and liabilities. As at 30 June 2019, the Group's equity interest attributable to shareholders amounted to approximately RMB632.4 million (31 December 2018: approximately RMB613.9 million) in aggregate and total liabilities amounted to approximately RMB459.6 million (31 December 2018: approximately RMB547.2 million). The Group is committed to maintaining an appropriate combination of equity and debt, in order to maintain an effective capital structure and provide maximum returns for shareholders.

Liquidity and Financial Resources

As at 30 June 2019, the Group had net current assets of approximately RMB219.6 million (31 December 2018: approximately RMB432.8 million), which included cash and cash equivalents of approximately RMB320.8 million (31 December 2018: approximately RMB561.1 million) and the bank loans amounting to approximately RMB170.0 million (31 December 2018: approximately RMB100.0 million).

Gearing Ratio

As at 30 June 2019, the gearing ratio of the Group, which is calculated by dividing total bank loans by total equity, decreased to 26.6% from 30.8% as at 31 December 2018. The decrease was primarily due to repayment of the bank loans by the Group during the period.

Exchange Risk

The Group conducts business primarily in China with most of its transactions denominated and settled in Renminbi. Currently, the Group has not entered into any foreign exchange contracts to hedge against the fluctuations in exchange rate between Renminbi and other currencies. However, the Group monitors foreign exchange exposure regularly and considers if there is a need to hedge against significant foreign currency exposure when necessary.

Human Resources

As at 30 June 2019, the Group had a total of 1,203 employees (31 December 2018: 1,244 employees). The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's and individual's performance.

For the first half of 2019, the total staff cost (including Director's emoluments, contributions to defined contribution retirement schemes, bonus and other benefits) amounted to approximately RMB33.0 million (six months ended 30 June 2018: RMB73.3 million).

Commitment

Capital commitments of the Group outstanding as at 30 June 2019 and 31 December 2018 was as follows:

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Contracted for	2,014	2,784
Authorised but not contracted for	2,486	–
Total	4,500	2,784

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2019.

Pledge of Assets

As at 30 June 2019, certain of the Group's bank borrowings were secured by the Group's property, plant and equipment and land use rights, which had an aggregate carrying amount of approximately RMB77.2 million as of 30 June 2019 (31 December 2018: approximately RMB79.7 million), respectively.

USE OF PROCEEDS

The net proceeds from the Global Offering (after deducting the underwriting fees and other listing expenses borne by the Company) amounted to approximately HKD397.0 million (the “**Actual Net Proceeds**”) which will be used for the intended purposes as set out in the section headed “Future Plans and Use of Proceeds” of the Prospectus.

The table below sets out an allocation and the actual use of the Actual Net Proceeds as follows:

Business strategies as set out in the Prospectus	%	The Actual Net Proceeds HK\$ million	Actual use of the Actual Net Proceeds as at date of this announcement HK\$ million
Establishment of production facilities, warehouse, processing facilities which are expected to be in full use in 2020	30%	119.0	–
Advertising and marketing of the Group's products	10%	39.7	16.9
Expansion of distribution and marketing network	10%	39.7	9.7
Research and development activities	10%	39.7	9.7
Potential merger and acquisition	15%	59.6	1.6
Acquisition of production permits of new types of products	15%	59.6	–
Working capital and general corporate purposes	10%	39.7	23.5
	<u>100%</u>	<u>397.0</u>	<u>61.4</u>

CORPORATE GOVERNANCE

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability.

The Company has adopted the code provisions stated in the Corporate Governance Code (the “**Code**”) as set out in Appendix 14 to the Listing Rules. Since the listing date of the Company (“**Listing Date**”) and up to the date of this announcement, the Company has complied with all applicable code provisions set out in the Code.

AUDIT COMMITTEE

The Company established an audit committee (the “**Audit Committee**”) on 14 June 2018 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Code. The Audit Committee consists of three independent non-executive Directors, Mr. Sze Wing Chun (being the chairman of the Audit Committee who has a professional qualification in accountancy), Mr. Ho Ka Chun and Mr. Lee Kwok Tung, Louis. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, to develop and review the Group’s policies and to perform other duties and responsibilities as assigned by our Board. The Audit Committee discussed the accounting principles and policies adopted by the Group together with the management.

REVIEW OF THE INTERIM RESULTS

The interim report of the Group for the six months ended 30 June 2019 has also been reviewed and approved by the Audit Committee.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiries, all Directors confirmed that they have complied with the required standard of dealing as set out in the Model Code since the Listing Date and up to the date of this announcement.

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

Since the Listing Date and up to the date of this announcement, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Interim Dividend

In view of the performance of the Group and our dividend policy, on 30 August 2019, the directors of the Company declared an interim dividends of RMB0.30 cent per ordinary share for the six months ended 30 June 2019, which has not been recognised as a liability as at 30 June 2019.

Equity interests acquisition

On 12 July 2019, the Company, through its wholly owned subsidiary, entered into an acquisition agreement to acquire 51% of the equity interests in Jiangxi Yongfeng Kangde Pharmaceutical Company Limited* (江西永豐康德醫藥有限公司) (the “**Target Company**”) at a cash consideration of RMB60.0 million. The application of the Target Company’s transformation into a Chinese-Foreign equity joint venture was approved by local authorities in August 2019.

Grant of share options

On 19 July 2019, 16,000,000 share options (the “**Share Option**”), were granted to eligible grantees under the share option scheme of the Company adopted on 14 June 2018. Each option gives the holder the right to subscribe for one ordinary share of the Company. The options were accepted by the grantees but were not yet exercised. Validity period of the Share Options is from 19 October 2019 to 19 July 2020. The exercise price is HK\$3.098.

INTERIM DIVIDEND

Pursuant to our dividend policy, the Board declared an interim dividend of RMB0.30 cents (equivalent to HK\$0.33 cents, by adopting the prevailing exchange rate on 30 August 2019 set by the People’sTM Bank of China) per ordinary share (interim dividend for the first half of 2018: RMB0.54 cents) with a dividend payout ratio of 10.0%.

The interim dividend will be payable on 29 November 2019 to the shareholders of the Company whose names appear on the register of members of the Company on 19 September 2019.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 17 September 2019, to Thursday, 19 September 2019, both dates inclusive, during which period no transfer of Shares will be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, 16 September 2019.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2019 containing all the information required by the Listing Rules is to be dispatched to the shareholders of the Company and made available for review on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.fusenyy.com on 16 September 2019.

* *For identification purposes only*

By order of the Board
Fusen Pharmaceutical Company Limited
Cao Changcheng
Chairman and Executive Director

Hong Kong, 30 August 2019

As at the date of this announcement, the Board of the Company comprises Mr. Cao Changcheng (Chairman), Mr. Hou Taisheng, Mr. Chi Yongsheng, Ms. Meng Qingfen and Mr. Cao Dudu as executive Directors, and Mr. Sze Wing Chun, Mr. Lee Kwok Tung Louis and Mr. Ho Ka Chun as independent non-executive Directors.