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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)

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE PROVISION OF FINANCIAL ASSISTANCE

PROVISION OF FINANCIAL ASSISTANCE TO FUSEN CHINESE MEDICINE

During the period from March 2019 to November 2019, Henan Fusen, a wholly-owned subsidiary of the Company, had made certain Advances to Fusen Chinese Medicine in a number of tranches. The aggregate amount of Advances to Fusen Chinese Medicine amounted to approximately RMB257,570,000 and the interest in the total sum of RMB1,697,032.21 were repaid in full by Fusen Chinese Medicine as at the date of this announcement.

As at the date of this announcement, Fusen Chinese Medicine was wholly-owned by Fusen Shiye, which was a connected person of our Group as it was owned as to 50% by Mr. Cao, an executive Director, chairman and controlling Shareholder of the Company. As such, Fusen Chinese Medicine is a close associate of Mr. Cao and a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

IMPLICATIONS UNDER THE LISTING RULES

The provision of the Advances by Henan Fusen constituted connected transactions for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the Advances, on an aggregate basis, are more than 5% but less than 25% and the total value of the Advances is more than HK\$10,000,000, the Advances were subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since one or more of the applicable percentage ratios in respect of the Advances, on an aggregate basis, are more than 5% but less than 25%, the Advances also constituted discloseable transactions for the Company and were subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

In addition, the provision of the Advances by Henan Fusen constituted advances to an entity under Rule 13.13 of the Listing Rules. In March 2019, the asset ratio for providing an Advance of initially RMB100,000,000 to Fusen Chinese Medicine had exceeded 8% and therefore the provision of such Advance were subject to the announcement requirement under Rule 13.13 of the Listing Rules.

Furthermore, as at April 2019, the asset ratio for the Advances, when aggregated with the previous tranches of Advances made to Fusen Chinese Medicine, increased by over 3%. Hence, the Advances made in April 2019 were subject to the announcement requirement under Rule 13.14 of the Listing Rules.

However, the Company has failed to comply with the aforementioned Listing Rules as it had failed to make timely disclosure on the Advances and seek independent shareholders' approval at a general meeting pursuant to the relevant requirements above under Chapters 13, 14 and 14A of the Listing Rules.

REMEDIAL MEASURES

Since (i) the principal amount of the Advances and the interest had been fully repaid by Fusen Chinese Medicine; and (ii) such transactions cannot be reversed, the Company intends not to put forward a resolution at a general meeting to ratify the entering into and the provision of the Advances.

In order to ensure proper compliance of the Listing Rules in the future, the Company is taking several remedial measures as set out in this announcement.

PROVISION OF FINANCIAL ASSISTANCE TO FUSEN CHINESE MEDICINE

During the period from March 2019 to November 2019, Henan Fusen, a wholly-owned subsidiary of the Company, had made Advances to Fusen Chinese Medicine in a number of tranches, details of which are as follows:

Month/year	Amount of the Advances made by Henan Fusen to Fusen Chinese Medicine (RMB)
March 2019	100,000,000
April 2019	52,000,000
May 2019	75,480,000
June 2019	1,790,000
July 2019	25,510,000
September 2019	1,100,000
November 2019	<u>1,690,000</u>
Total amount of the Advances to Fusen Chinese Medicine	<u><u>257,570,000</u></u>

An interest equivalent to 5.22% per annum is charged on the Advances. Such interest was determined with reference to prevailing market rates. The Advances were unsecured with no fixed term of repayment. The provision of the Advances were financed by the internal resources of the Group and no part of the proceeds from Listing had been applied for the provision of the Advances.

As at 25 December 2019, the principal amount of the Advances was repaid by Fusen Chinese Medicine to the Group and the Group has since then ceased to provide further financial assistance to Fusen Chinese Medicine. The interest for the Advances in the total sum of RMB1,697,032.21 was repaid by Fusen Chinese Medicine to the Group on 12 March 2020.

The Directors are of the view that the provision of Advances to Fusen Chinese Medicine did not have any material adverse effect on the financial position of the Group.

INFORMATION OF THE GROUP AND HENAN FUSEN

The Company is an investment holding company incorporated in the Cayman Islands with limited liability. The Group is principally engaged in manufacturing and sale of pharmaceutical products, including but not limited to Shuanghuanglian-based cold medicine. In addition to the offering of core medicine products, the Group also engaged in research and development on, among others, its products' quality standard and stability, common chronic diseases and other proprietary Chinese medicine products.

Henan Fusen was established in the PRC on 10 October 2003 as a limited liability company, and is a wholly-owned subsidiary of the Company. As the principal operating subsidiary of the Company, it carries on the business of production, sale and research and development of PCM cold medicines, with a particular focus on Shuanghuanglian-based cold medicines.

INFORMATION OF FUSEN CHINESE MEDICINE AND ITS RELATIONSHIP WITH THE GROUP

Fusen Chinese Medicine was incorporated in the PRC with limited liability on 14 January 2010 and principally carries on the business of trading of medicinal herbs, including but not limited to *Ionicera japonica* and baikal skullcap root (黃芩). As at the date of this announcement, Fusen Chinese Medicine is wholly-owned by Fusen Shiye which is owned as to 50% by Mr. Cao.

Fusen Chinese Medicine has been the Group's key supplier for the supply of medicinal herbs since 2012. On 14 June 2018, Fusen Chinese Medicine as supplier and Henan Fusen as purchaser entered into a master purchase agreement for purchase of certain medicinal herbs (the "**Master Purchase Agreement**") which constituted non-exempt continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The Company applied for and the Stock Exchange granted a waiver from strict compliance with the relevant requirements under Chapter 14A of the Listing Rules in respect of the said continuing connected transactions under the Master Purchase Agreement.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Fusen Chinese Medicine was wholly-owned by Fusen Shiye, which was owned as to 50% by Mr. Cao, an executive Director, chairman of the Board and controlling shareholder of the Company. As such, Fusen Chinese Medicine is a close associate of Mr. Cao and a connected person of the Company. Hence, the provision of the Advances constituted connected transactions for the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Advances, on an aggregate basis, are more than 5% but less than 25% and the total value of the Advances is more than HK\$10,000,000, the provision of the Advances were subject to the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Since the applicable percentage ratios in respect of the Advances, on an aggregate basis, are more than 5% but less than 25%, the Advances also constituted discloseable transactions for the Company and were subject to the notification and announcement requirements under Chapter 14 of the Listing Rules.

In addition, the Advances constituted advances to an entity under Rule 13.13 of the Listing Rules. In March 2019, the asset ratio for providing an initial advance of RMB100,000,000 to Fusen Chinese Medicine had exceeded 8% and therefore the provision of such Advance were subject to the announcement requirement under Rule 13.13 of the Listing Rules.

Furthermore, as at April 2019, the asset ratio for the Advances, when aggregated with the previous tranches of Advances made to Fusen Chinese Medicine, increased by over 3%. Hence, the Advances made in April 2019 were subject to the announcement requirement under Rule 13.14 of the Listing Rules.

However, the Company has failed to comply with the aforementioned Listing Rules as it had failed to make timely disclosure on the Advances and seek independent shareholders' approval at a general meeting pursuant to the relevant requirements under the Listing Rules as described above.

REASONS FOR THE NON-COMPLIANCE OF THE LISTING RULES

Based upon the Group's internal investigation, it is discovered that during the period between March 2019 and November 2019, the general manager of Fusen Chinese Medicine instructed its accounting staff to make requests to the accounting department of the Group for certain advances to Fusen Chinese Medicine to meet its funding needs for purchasing materials and agricultural machinery on urgent and temporary basis. Such requests were processed by the accounting staff of Henan Fusen and approved by the finance manager of Henan Fusen. The relevant accounting staff of the Group had mistakenly treated the fund transfers for such advances as if they were prepayments for purchases of materials under the Master Purchase Agreement. At the material time, no meeting was held nor had any written resolutions been adopted by the Board of the Company in respect of the provisions of the Advances. The Directors considered that due to oversight and inadvertent misunderstanding of the Listing Rules by the relevant accounting staff involved in the provision of financial assistance to Fusen Chinese Medicine, such financial assistance were not reported to the

Board at the material time and hence the Company did not make timely disclosure on the Advances and did not seek independent shareholders' approval as required under the Listing Rules.

In mid-February 2020, during the preparation of the annual results for the year ended 31 December 2019, the management of the Company noted that the fund transfers between Henan Fusen and Fusen Chinese Medicine might constitute discloseable and connected transactions for the Company under the Listing Rules.

To further investigate the matters, the management of the Group reviewed the breakdowns and movements of the items in all the ledgers and balances of Henan Fusen and checked the amounts of all the relevant transactions between Henan Fusen and Fusen Chinese Medicine. As a result, the above discloseable and connected transactions were identified. On 25 February 2020, the management of the Company first notified members of the Board of the Advances and meetings of the Board were convened on 28 February 2020 and 13 March 2020 to discuss the incident concerning the Advances and how it should be resolved and remedied.

REMEDIAL MEASURES

On 25 December 2019, the Advances were repaid in full by Fusen Chinese Medicine and the interest was fully repaid on 12 March 2020. Since the Advances had been fully repaid and such transactions cannot be reversed, the Company intends not to put forward a resolution at a general meeting of the Company to ratify the entering into and the provision of Advances.

In order to ensure proper compliance of the Listing Rules in the future, the Company is taking the following remedial measures:

- (i) The Company will engage an internal control consultant to identify any deficiencies of the Group's internal control policies for monitoring the connected transactions and continuing connected transactions under the Listing Rules, and make recommendations to enhance the relevant internal control policies.
- (ii) The audit committee of the Company consisting of three independent non-executive Directors will be entrusted with the responsibility to review and improve the internal control system and financial reporting system of the Company.
- (iii) The Company will modify its existing procedures in monitoring connected transactions and discloseable transactions of the Group under Chapters 14 and 14A of the Listing Rules in accordance with the recommendations of the internal control consultant of the Company. The Company will also designate a specific personnel with professional knowledge to oversee and review the nature of transactions between the Group and its connected persons on an ongoing basis. The designated personnel will also periodically provide the management of the Company with a list of the connected persons of the Company, their corresponding relationships with the Group and details of any transactions with such connected persons and will notify the Board before any proposed transactions are entered into between the Group and such connected persons.

- (iv) The Group will issue relevant guidance and training materials, in particular, on how to identify notifiable and connected transactions under the Listing Rules, to the Directors, senior management and the relevant staff of the Group. The Group will also arrange training sessions on compliance requirements for notifiable and connected transactions so as to improve the standard of corporate governance and operating management of the Company.
- (v) The Company will seek legal advice and/or other professional advice from time to time as and when it is necessary to ensure proper compliance with the relevant requirement of the Listing Rules by the Group.

DEFINITIONS

Unless otherwise defined, the following expressions in this announcement shall have the following meanings:

“Advance(s)”	a number of tranches of Advances made by Henan Fusen to Fusen Chinese Medicine, details of which are set out in the section headed “Provision of financial assistance to Fusen Chinese Medicine” in this announcement
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Chairman”	the chairman of the Board
“Company”	Fusen Pharmaceutical Company Limited (福森藥業有限公司), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1652)
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed thereto in the Listing Rules
“Director(s)”	the director(s) of the Company
“Fusen Chinese Medicine”	Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited* (浙川縣福森中藥材種植開發有限公司), details of which are set out in the section headed “Information of Fusen Chinese Medicine and its relationship with the Group” in this announcement
“Fusen Shiye”	Henan Fusen Shiye Limited* (河南福森實業有限公司), a company established in the PRC with limited liability
“Group”	the Company and its subsidiaries

“Henan Fusen”	Henan Fusen Pharmaceutical Company Limited* (河南福森藥業有限公司), a company established in the PRC with limited liability, details of which are set out in the section headed “Information of the Group and Henan Fusen” in this announcement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing”	the listing of the Shares on the Stock Exchange on 11 July 2018
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Cao”	Mr. Cao Changcheng (曹長城), an executive Director, chairman of the Board and controlling Shareholder of the Company
“PCM”	proprietary Chinese medicine
“PRC”	the People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under the Listing Rules
“%”	per cent

* For identification purpose only. If there is any inconsistency between the Chinese names of PRC entities, departments, facilities or titles mentioned in this announcement and their English translations, the Chinese version shall prevail.

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

Hong Kong, 23 March 2020

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 Zhiming (formerly known as 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.

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any of the statements in this announcement misleading.

This announcement is prepared in English language and translated into Chinese. In the event of any inconsistencies between the Chinese and the English version, the latter shall prevail.