Fusen Pharmaceutical Company Limited
福森藥業有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1652)

UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB407.4 million for the year ended 31 December 2019, representing a decrease of approximately 11.8% as compared with that for the year ended 31 December 2018.
- Gross profit decreased by approximately 15.5% from approximately RMB251.3 million for the year ended 31 December 2018 to approximately RMB212.5 million for the year ended 31 December 2019.
- Gross profit margin decreased from approximately 54.4% for the year ended 31 December 2018 to approximately 52.2% for the year ended 31 December 2019.
- Profit attributable to the owners of the Company was approximately RMB53.4 million for the year ended 31 December 2019 as compared to profit of approximately RMB101.9 million for the year ended 31 December 2018.
- Basic earnings per share was approximately RMB7 cents for the year ended 31 December 2019, and approximately RMB15 cents for the year ended 31 December 2018.
- The Board resolved to recommend the payment of a final dividend of RMB0.37 cents per ordinary share for the year ended 31 December 2019 (final dividend of the Company for the year ended 31 December 2018: RMB0.74 cents), subject to the approval of the shareholders at the forthcoming annual general meeting of the Company.

FINAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Fusen Pharmaceutical Company Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2019, together with the audited comparative figures for the year ended 31 December 2018.

For the reasons explained in the paragraph headed "Review of Unaudited Annual Results" in this announcement, the audit process of the annual results at the Group for the year ended 31 December 2019 has not been completed.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in Renminbi)

		Year ended 31 December	
	Note	**2019**	2018
			(Note)
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
Revenue	*3*	**407,388**	462,061
Cost of sales		**(194,900)**	(210,744)
Gross Profit		**212,488**	251,317
Other net income	*4*	**25,194**	23,641
Selling and distribution expenses		**(112,805)**	(89,587)
General and administrative expenses		**(58,729)**	(49,304)
Profit from operations		**66,148**	136,067
Finance income		**3,663**	3,346
Finance costs		**(10,532)**	(15,599)
Net finance costs		**(6,869)**	(12,253)
Share of profit of a joint venture		**4,535**	–
Profit before taxation	*5*	**63,814**	123,814
Income tax expenses	*6*	**(11,555)**	(21,905)
Profit for the year		**52,259**	101,909

	Note	**Year ended 31 December** **2019**	2018
			(Note)
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
Profit for the year attributable to:			
Equity shareholders of the Company		**53,434**	101,882
Non-controlling interests		**(1,175)**	27
Profit for the year		**52,259**	101,909
Other comprehensive income for the year (after tax)			
Item that may be reclassified subsequently to profit of loss:			
— Exchange differences on translation of financial statements of the Company and overseas subsidiaries		**5,230**	12,603
Other comprehensive income, net of tax		**5,230**	12,603
Total comprehensive income for the year Attributable to:			
Equity shareholders of the Company		**58,664**	114,485
Non-controlling interests		**(1,175)**	27
Total comprehensive income for the year		**57,489**	114,512
Earnings per share	*7*		
Basic *(RMB cents)*		**7**	15
Diluted *(RMB cents)*		**7**	15

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019
(Expressed in Renminbi)

	Note	As at 31 December 2019	2018
			(Note)
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
Non-current assets			
Investment property		**19,821**	–
Other property, plant and equipment		**124,676**	154,445
Land use rights		**–**	116,625
Right-of-use assets		**253,980**	–
Intangible assets		**16,666**	1,283
Goodwill		**7,054**	–
Interest in a joint venture		**72,103**	–
Deferred tax assets		**5,408**	4,840
Other assets		**2,126**	2,304
		501,834	279,497
Current assets			
Inventories		**88,404**	140,787
Trade receivables	*9*	**170,164**	120,344
Prepayments and other receivables		**84,783**	47,819
Restricted guarantee deposits		**–**	13,707
Cash and cash equivalents		**331,044**	561,108
		674,395	883,765
Current liabilities			
Trade and bills payables	*10*	**68,898**	137,623
Contract liabilities		**3,796**	6,165
Accruals and other payables		**194,614**	193,334
Bank loans		**190,000**	100,000
Current taxation		**3,498**	13,877
		460,806	450,999
Net current assets		**213,589**	432,766
Total assets less current liabilities		**715,423**	712,263

	Note	As at 31 December 2019	2018 (Note)
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
Non-current liabilities			
Deferred income		**6,752**	4,472
Bank loans		**20,000**	90,000
Deferred tax liabilities		**7,131**	1,692
		33,883	96,164
Net assets		**681,540**	616,099
Capital and reserves			
Share capital	*11*	**6,732**	6,732
Reserves		**666,713**	607,203
Total equity attributable to equity shareholders of the Company		**673,445**	613,935
Non-controlling interests		**8,095**	2,164
Total equity		**681,540**	616,099

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2(c).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000 unless otherwise indicated)

1 ORGANISATION AND PRINCIPAL 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 is an investment holding company. The Group are principally engaged in manufacturing and sale of pharmaceutical products.

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited on 11 July 2018 (the "Listing").

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The functional currency of the Company is Hong Kong dollars (HKD). The Company's primary subsidiaries were incorporated in the People's Republic of China (the "PRC") and the subsidiaries considered Renminbi (RMB) as their functional currency. As the operations of the Group are within the PRC, the Group determined to present these financial statements in RMB, unless otherwise stated.

The consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost.

(c) Changes in accounting policies

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

None of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, Leases

IFRS 16 replaces IAS 17, Leases, 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.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach to recognised 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.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

a. *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. *Lessee accounting and transitional impact*

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets which are exempt.

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, thus the 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 financial statements.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

Disaggregation of revenue from contracts with customers by major products is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Shuanghuanglian Oral Solutions	**211,570**	255,237
Shuanghuanglian Injections	**64,585**	86,103
Others	**131,233**	120,721
	407,388	462,061

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's consolidated revenue in each of financial year ended 31 December 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 based on geographical locations of the customers and assets is provided.

4 OTHER NET INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Material and scrap sales income, net	**1,557**	1,843
Rental income	**655**	505
Government grants	**3,872**	9,339
Write-off of long-term outstanding payables	**18,883**	11,476
Others	**227**	478
	25,194	23,641

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Salaries and wages	**49,757**	54,362
Contributions to defined contribution retirement schemes*	**7,372**	7,190
Bonuses and other benefits	**12,699**	41,921
	69,828	103,473

* Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated based on certain percentages of the average employee salary as agreed by the respective local municipal governments to the scheme to fund the retirement benefits of the employees.

The Group has no other obligation for the payment of retirement and other post-retirement benefits of employees other than the contributions described above.

(b) Other items

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Cost of inventories*	**195,750**	214,153
Amortisation of intangible assets	**200**	200
Depreciation of investment property and other property, plant and equipment	**15,934**	15,909
Amortisation of land use rights	**–**	700
Depreciation of right-of-use assets	**5,098**	–
(Reversal of)/credit losses on trade and other receivables	**(769)**	1,393
Research and development costs	**11,408**	11,021
Auditors' remuneration — audit services	**4,300**	3,500

* Cost of inventories includes RMB40,732,000 in 2019 (2018:RMB48,736,000), relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above.

6 INCOME TAX EXPENSES

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current tax — PRC Enterprise Income Tax		
Provision for the year	**12,270**	19,859
Over-provision in respect of previous years	**(1,690)**	–
	10,580	19,859
Deferred tax		
Origination and reversal of temporary differences	**975**	2,046
	11,555	21,905

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 for 2019 (2018: Nil) and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate of 2019 is 16.5% (2018: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

In accordance with the Enterprise Income Tax Law of the PRC ("the Income Tax Law"), enterprise income tax rate for the Group's PRC subsidiaries for 2019 is 25% (2018: 25%).

According to the Income Tax Law, the Company's subsidiary, Henan Fusen Pharmaceutical Company Limited was certified as a New and High Technology Enterprise in Henan since 2012, and is entitled to a preferential income tax rate of 15% (2018: 15%). The current certification of New and High Technology Enterprise held by Henan Fusen Pharmaceutical Company Limited will be expired on 12 September 2021.

According to the Income Tax Law and its implementation rules, dividends receivable by non-PRC resident investors from PRC entities are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profit earned since 1 January 2008. Cloud Dollar Investments Limited and Wealth Depot (Hong Kong) Limited, subsidiaries of the Company, are subject to PRC dividend withholding tax at 10% on dividends receivables from PRC subsidiaries and investees.

(b) Reconciliation between income tax and accounting profit at applicable tax rates:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Profit before taxation	**63,814**	123,814
Tax calculated at statutory tax rates applicable to profits in the respective jurisdictions	**15,954**	30,953
Tax effect of		
Preferential income tax rates applicable to a PRC subsidiary	**(7,726)**	(13,252)
Non-deductible expense	**1,596**	13
Non-taxable income from share of net profit of a joint venture	**(1,134)**	–
Unused tax losses not recognised	**3,011**	2,499
Over-provision in respect of previous years	**(1,690)**	–
PRC dividends withholding tax	**1,544**	1,692
Income tax expenses	**11,555**	21,905

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB53,434,000 (2018: RMB 101,882,000) and the weighted average of 800,000,000 ordinary shares (2018: 694,794,521 shares*) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2019	2018
	'000	*'000*
		*
	(Unaudited)	(Audited)
Issued ordinary shares at 1 January	**800,000**	600,000
Effect of issue of shares upon initial public offering	**–**	94,795
Weighted average number of ordinary shares at 31 December	**800,000**	694,795

* The weighted average number of shares in issue in 2018 were based on the assumption that the 600,000,000 ordinary shares of the Company had been issued throughout the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB53,434,000 (2018: RMB101,882,000) and the weighted average number of issued ordinary shares of 802,947,709 (2018: 694,794,521 shares) after adjusting the effects of dilutive potential ordinary shares during the year, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2019	2018
	'000	*'000*
	(Unaudited)	(Audited)
Weighted average number of ordinary shares at 31 December	**800,000**	694,795
Effect of deemed issue of shares under the Company's share option scheme	**2,948**	–
Weighted average number of ordinary shares (diluted) at 31 December	**802,948**	694,795

16,000,000 share were granted on 19 July 2019 under share option scheme of the Company adopted on 14 June 2018 (the "**Share Option Scheme**") and not yet executed by the grantees as at the date of this announcement.

8 DIVIDENDS

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Interim dividend declared of RMB0.30 cents (equivalent to HKD0.33 cents) per ordinary share (2018: RMB0.54 cents (equivalent to HKD0.62 cents) per ordinary share)	**2,400**	4,320
Final dividend proposed after the end of the reporting period of RMB0.37 cents (equivalent to HKD0.40 cents) per ordinary share (2018: RMB0.74 cents (equivalent to HKD0.86 cents) per ordinary share)	**2,960**	5,920

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

(ii) During the year ended 31 December 2019, the dividends of RMB5,313,000 were paid to the equity shareholders of the Company (2018: RMB1,061,000).

9 TRADE RECEIVABLES

	31 December 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Bills receivable*	**102,517**	59,770
	102,517	59,770
Trade debtors	**72,656**	66,760
Less: allowance for credit loss	**(5,009)**	(6,186)
	67,647	60,574
	170,164	120,344

* At 31 December 2019, the Group's bills receivable of RMB23,974,000 (2018: RMB50,494,000) were endorsed to suppliers. 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 year, the ageing analysis of trade debtors based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for credit loss, is as follows:

	As at 31 December 2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Current to 3 months	**57,691**	37,343
3 to 6 months	**7,746**	15,954
6 to 12 months	**1,855**	6,982
Over 12 months	**355**	295
	67,647	60,574

Trade debtors and bills receivable are due within 1 month to 6 months from the date of billing. No interests are charged on the trade receivables.

10 TRADE AND BILLS PAYABLES

Trade and bills payables are analysed as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Bills payable	**–**	10,448
Trade payables		
Third parties	**67,290**	126,773
Amounts due to related parties	**1,608**	402
	68,898	137,623

Ageing analysis

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:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current to 3 months	**48,454**	113,082
3 to 6 months	**4,864**	10,250
6 to 12 months	**5,959**	6,166
Over 12 months	**9,621**	8,125
	68,898	137,623

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

11 SHARE CAPITAL

	2019		2018	
	No. of shares	**Amount**	No. of shares	Amount
		RMB'000		*RMB'000*
Authorised-ordinary shares of HKD0.01 each:				
At 1 January	**2,000,000,000**	**16,354**	300,000,000	2,498
Increase	**–**	**–**	1,700,000,000	13,856
At 31 December	**2,000,000,000**	**16,354**	2,000,000,000	16,354
Ordinary shares, issued and fully paid:				
At 1 January	**800,000,000**	**6,732**	153,246,304	1,274
Capitalisation issue	**–**	**–**	446,753,696	3,770
Initial public offering	**–**	**–**	200,000,000	1,688
At 31 December	**800,000,000**	**6,732**	800,000,000	6,732

The holders of ordinary shares as at 31 December 2019 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company and its subsidiaries are principally engaged in manufacturing and sale of pharmaceutical products.

Industry overview

Given the step-by-step implementation of a series of pharmaceutical reform policies, including "two-invoices" system, consistency evaluation of the quality and efficacy of generic drugs, establishment of the national list of adjuvant drugs and bulk buying, the development of China's pharmaceutical industry fluctuated with obvious ripple effect. To achieve rationalization of medical reimbursement fund, the industrial trend has been developed through bulk buying on the basis of consistency evaluation. Generic drugs with proved clinical result, safety and controllable quality and reasonable price will have greater room for development in the future. Pharmaceutical entities have to focus on research and development for new products, continuously improve product quality and effectively control the cost in production and logistics process to adapt to the dramatic change in the whole industry.

Business review

Our revenue and gross profit for the year ended 31 December 2019 were approximately RMB407.4 million and RMB212.5 million, representing a decrease of approximately 11.8% and 15.5% respectively as compared with the year ended 31 December 2018. The decrease in revenue was mainly attributable to the decrease in sales volume of our products due to the market uncertainty during the process of industrial policy adjustment. The Company made adjustment to its sales system and continuously optimized distributor structure, sales volume of the Company's major products, such as Shuanghuanglian Oral Solutions, returned stable and rebounded in the second half of 2019. In the meantime, the Company had appropriately and flexibly adjusted the prices of certain products to deal with the fierce market competition.

The Group continues to increase investment in product research and development. In the field of chemical medicine, in addition to the projects under the ongoing consistency evaluation, the Company developed first generics drug. In the field of proprietary Chinese medicine products, the Group continues to invest in research and development, mainly focusing on the active ingredients of pharmaceuticals and the mechanism of efficacy, which facilitated the promotion of clinical applications.

In terms of product sales, the Company continues to optimize distributor structure, enhances the efficiency in commercial circulation and reduces the expenses of the Company. By virtue of various measures, including adjustment at the Company's sales team, enhancement on training and continuously optimization of flow information, our development and expansion in over-the-counter ("**OTC**") market, such as primary medical institutions and chain pharmacies, was strengthened.

Outlook

With the gradual implementation of various new medical reform policies, the structural adjustment of pharmaceutical industry in 2019 will continue. The nationwide bulk buying will accelerate with a wider coverage in the future. Regulatory mechanism for quality and supply of pharmaceutical products, tracking systems of pharmaceutical products, payment for goods as well as promotion in commercial circulation will become more and more comprehensive. Also, the outbreak of novel coronavirus in the early 2020 has created great market uncertainty, especially for the Group's major products, namely Shuanghuanglian Oral Solutions and Shuanghuanglian Injections. With the basis that the Company is a major investor of Jiangxi Yongfeng Kangde Pharmaceutical Company Limited* (江西永豐康德醫藥有限公司) ("**Jiangxi Yongfeng**") since 2019, the Company has been and will continue to enrich our product portfolio through acquisition or cooperation with other entities.

The pharmaceutical industry in China is still relatively fragmented. Given the gradual implementation of marketing authorization holder regime, there are lots of opportunities for acquisition and merger. The Company will take advantage of the post-listing capital platform to make greater efforts in acquisition of new products and pharmaceutical manufacturing companies. In terms of products selection, we will concentrate on clinical essential drugs and OTC products, through which a solid foundation for long-term development of the Company will be set.

The management of the Company fully recognises the opportunities and challenges coming from the reform of pharmaceutical industry. We will keep enhancing our competitiveness in various fields, including research and development, sales and production to give best returns to the shareholders and investors.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately RMB54.7 million, or 11.8%, from approximately RMB462.1 million for the year ended 31 December 2018 to approximately RMB407.4 million for the year ended 31 December 2019. The following table sets out a breakdown of the Group's revenue during the years ended 31 December 2019 and 2018 by products:

	Year ended 31 December				
	2019		2018		
	***Revenue RMB'000* (Unaudited)**	**% of total**	*Revenue RMB'000* (Audited)	% of total	Growth rate %
Shuanghuanglian Oral Solutions (10 ml)	**156,139**	**38.3%**	194,290	42.0%	-19.6%
Shuanghuanglian Oral Solutions (20 ml)	**55,431**	**13.6%**	60,947	13.2%	-9.1%
Subtotal	**211,570**	**51.9%**	255,237	55.2%	-17.1%
Shuanghuanglian Injections	**64,585**	**15.9%**	86,103	18.6%	-25.0%
Compound Ferrous Sulfate Granules	**23,229**	**5.7%**	23,257	5.0%	-0.1%
Others products	**108,004**	**26.5%**	97,464	21.2%	10.8%
Subtotal	**195,818**	**48.1%**	206,824	44.8%	-5.3%
Total	**407,388**	**100.0%**	462,061	100.0%	-11.8%

The revenue decline of the Group was primarily driven by the decrease in Shuanghuanglian Oral Solutions and Injections.

Cost of sales

Cost of sales decreased by approximately RMB15.8 million, or 7.5%, from approximately RMB210.7 million for the year ended 31 December 2018 to approximately RMB194.9 million for the year ended 31 December 2019. Such decline was generally in line with the decrease in revenue.

Gross profit and gross profit margin

Gross profit decreased by approximately RMB38.8 million from approximately RMB251.3 million for the year ended 31 December 2018 to approximately RMB212.5 million for the year ended 31 December 2019. The Group's gross profit margin was approximately 54.4% and 52.2% for the years ended 31 December 2018 and 2019, respectively.

Other net income

Our other net income primarily consists of net material and scrap income, rental income, government grants, write-off long-outstanding payables and others. The other net income increased by approximately RMB1.6 million to approximately RMB25.2 million for the year ended 31 December 2019 from that of 2018, primarily due to write-off of long-outstanding payables netting of the decrease in government grants.

Selling and distribution expenses

Our selling and distribution expenses primarily consist of wages and salaries, logistics charges, advertisement expenses, commission fee, service fee, business travel expenses and other miscellaneous expenses. The selling and distribution expenses increased by approximately RMB23.2 million, or 25.9%, from approximately RMB89.6 million for the year ended 31 December 2018 to approximately RMB112.8 million for the year ended 31 December 2019, mainly represented by the approximately RMB43.5 million in service fee, offsetting by the approximately RMB28.1 million in commission fee. The service fee primarily consist of expenses on branding planning, promotion activities planning, marketing research and digital information of products online distribution.

General and administrative expenses

Our general and administrative expenses primarily consist of wages and salaries, consultant, research and development cost, depreciation and others. The general and administrative expenses increased by approximately RMB9.4 million, or 19.1%, from approximately RMB49.3 million for the year ended 31 December 2018 to approximately RMB58.7 million for the year ended 31 December 2019, mainly represented increase in expenses on the Company's recognition on the relevant expenses for the services acquired during the vesting period at the fair value of the 16,000,000 share options granted under the Share Option Scheme and depreciation expenses of the newly acquired land use rights.

Income tax expenses

Income tax primarily represents income tax payable by us under relevant PRC income tax rules and regulations. Henan Fusen Pharmaceutical Company Limited, 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%. Our effective tax rate was 18.1% and 17.7% in 2019 and 2018 respectively.

Profit and total comprehensive income for the year

As a result of the foregoing, the profit for the year decreased by approximately RMB49.7 million, or 48.7%, from approximately RMB101.9 million for the year ended 31 December 2018 to approximately RMB52.3 million for the year ended 31 December 2019. The net profit margin which is calculated as the net profit divided by the revenue for the years ended 31 December 2019 and 2018 were approximately 12.8% and 22.1%, respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group had net current assets of approximately RMB213.6 million (2018: RMB432.8 million) and cash and bank balances of approximately RMB331.0 million (2018: RMB561.1 million).

As at 31 December 2019, the Group's total equity attributable to owners of the Company amounted to approximately RMB673.4 million (2018: RMB613.9 million), and the Group's total debt amounted to approximately RMB210.0 million (2018: RMB190.0 million). The Directors have confirmed that the Group will have sufficient financial resources to meet its obligations as they fall due in the foreseeable future.

GEARING RATIO

As at 31 December 2019, the gearing ratio of the Group, which is calculated as the total debt divided by the total equity, was approximately 30.8% (2018: 30.8%).

CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2019 and 2018 not provided for in the financial statements were as follows:

	31 December 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contracted for	**131,938**	2,784

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2019.

INFORMATION ON EMPLOYEES

As at 31 December 2019, the Group employed 1,214 employees (2018: 1,244 employees). Employees are remunerated based on their qualifications, position and performance. 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 year ended 31 December 2019, the total staff cost (including Directors' emoluments, contributions to defined contribution retirement schemes, bonus and other benefits) amounted to approximately RMB69.8 million (2018: RMB103.5 million).

COMPARISON OF BUSINESS STRATEGIES WITH ACTUAL BUSINESS PROGRESS

The shares of the Company were listed on the Main Board of the Stock Exchange on 11 July 2018. The Group is in its preliminary stage of implementing its business objectives and strategies as disclosed in the prospectus of the Company dated 28 June 2018 (the "**Prospectus**") and will strive to achieve the milestone events as stated in the Prospectus.

The following sets out a comparison of the business strategies as stated in the Prospectus with the Group's actual business progress and up to the date of this announcement.

Business strategies as stated in the Prospectus	**Actual business progress up to the date of this announcement**
Establishment of production facilities, warehouse, processing facilities	The Group has further upgraded and optimized certain existing equipment.
Advertising and marketing of our products	The Company has strengthened brand promotion through media channel such as TV and road side billboards to highlight its market reputation gained over the years.
Expansion of distribution and marketing network	The Group adjusted the sales regime by setting up a designated department to manage distributors focusing on improving the efficiency of delivery of goods and collection of receivables. Meanwhile, the Group started to set up its own sales team to strengthen the development and management of medical institutions and chain pharmacies so as to gradually develop end-sales market.
Research and development activities	In the field of proprietary Chinese medicine products, the Group kept investing in research and development, focusing on raising quality standard of its core product. As for other proprietary Chinese medicine products, the Group mainly focusing on studying the mechanism of efficacy and effect. Also, the Group invested in research on consistency evaluation.
Potential merger and acquisition	In 2019, the Group injected capital into Beijing Sanye Mingming Pharmaceutical Technology Company Limited* (北京三也明明醫藥科技有限公司) to acquire 50% equity interests. The Group also acquired equity interests of Jiangxi Yongfeng during 2019. For details, please refer to our announcements dated 4 February 2019 and 14 July 2019 respectively.

Business strategies as stated in the Prospectus	Actual business progress up to the date of this announcement
Acquisition of production permits of new types of products	The pharmaceutical industry in China is still relatively fragmented. Given the gradual implementation of marketing authorization holder regime, there are lots of opportunities for acquisition and merger. The Group took advantage of the post-listing capital platform to make greater efforts in acquisition. In terms of products selection, the Group will concentrate on clinical essential drugs and OTC products. During the reporting period, the Group did not enter into any formal acquisition agreement.
Working capital and general corporate purposes	Items for replenishment of working capital of the Company mainly represent the legal and professional service charge.

USE OF PROCEEDS

The net proceeds from the 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**	**Actual use of the Actual Net Proceeds as at date of this announcement**
	%	*HK$ million*	*HK$ million*
Establishment of production facilities, warehouse, processing facilities which are expected to be in full use in 2020	*30%*	119.0	3.6
Advertising and marketing of our products	*10%*	39.7	17.2
Expansion of distribution and marketing network	*10%*	39.7	10.5
Research and development activities	*10%*	39.7	15.7
Potential merger and acquisition	*15%*	59.6	59.6
Acquisition of production permits of new types of products	*15%*	59.6	–
Working capital and general corporate purposes	*10%*	39.7	29.5
	100%	397.0	136.1

TREASURY POLICY

The Directors will continue to follow a prudent policy in managing the Group's cash and maintaining a strong and healthy liquidity to ensure that the Group is well placed to take advantage of future growth opportunities.

CAPITAL STRUCTURE

The Company's shares were successfully listed on the Main Board of the Stock Exchange on 11 July 2018. There has been no change in the capital structure of the Group since then. The capital of the Group only comprises of ordinary shares.

CHARGE ON GROUP ASSETS

As at 31 December 2019 and 2018, 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 RMB167.0 million and RMB79.7 million as of 31 December 2019 and 2018, respectively.

FOREIGN EXCHANGE EXPOSURE

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.

MATERIAL ACQUISITION AND DISPOSAL

During the year ended 31 December 2019 and up to the date of this announcement, the Group did not perform any material acquisition or disposal of subsidiaries and associates except for those mentioned in our announcements dated 4 February 2019, 15 May 2019, 14 July 2019 and 24 December 2019.

EVENT AFTER THE REPORTING PERIOD

Since the outbreak of novel coronavirus in January 2020, the prevention and control of the novel coronavirus has been going on throughout the country. The novel coronavirus has brought additional uncertainties for the Group.

The Group expects that the novel coronavirus may pose an impact that might not be reasonably estimated at this stage. The Board will continue to assess the impact of the novel coronavirus on the Group's operations and financial performance and closely monitor the Group's exposures to the risks and uncertainties in connection with the novel coronavirus. The Group will take appropriate measures as necessary. Up to the date of this announcement, the assessment is still in progress.

Save as disclosed in this announcement, as at the date of this announcement, the Group has no significant events after the reporting period required to be disclosed.

DIVIDEND POLICY

The Company may distribute dividends by way of cash or by other means that the Company considers appropriate. The Directors currently intend to declare a dividend of no less than 10% of the Company's distributable profit for any particular financial year. Such intention does not amount to any guarantee, representation or indication that the Company must or will declare and pay dividends in such manner or at all. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to shareholders' approval. The Board will review dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- the Group's result of operations;
- the Group's cash flows;
- the Group's financial condition;
- the Group's shareholders' interests;
- general business conditions and strategies of the Group;
- the Group's capital requirements;
- the payment by the Company's subsidiaries of cash dividends to the Company; and
- other factors the Board may deem relevant.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of RMB0.37 cents per ordinary share for the year ended 31 December 2019 (equivalent to HK$0.40 cents by adopting the prevailing exchange rate on 31 March 2020 set by the People's Bank of China) (2018: RMB0.74 cents) to the shareholders of the Company whose names appear on the register of Members of the Company on 9 July 2020.

The said final dividend will be paid in cash on 10 August 2020, subject to: (i) the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on Tuesday, 30 June 2020 (the "**2020 Annual General Meeting**"); and (ii) the audited annual results of the Group for the year ended 31 December 2019 upon completion of the audit process being consistent in all material respects with the unaudited annual results set out herein. Details of dividend for the year ended 31 December 2019 are set out in Note 8 to the financial statements of the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

(a) for determining eligibility to attend and vote at the 2020 Annual General Meeting:

Latest time to lodge transfer documents for registration:	4:30 p.m., Tuesday, 23 June 2020
Closure of register of members:	Wednesday, 24 June 2020 to Tuesday, 30 June 2020 (both days inclusive)
Record date:	Tuesday, 30 June 2020

(b) for determining entitlement to the proposed final dividend:

Latest time to lodge transfer documents for registration:	4:30 p.m., Monday, 6 July 2020
Closure of register of members:	Tuesday, 7 July 2020 to Thursday, 9 July 2020 (both days inclusive)
Record date:	Thursday, 9 July 2020

In order to be eligible to attend and vote at the 2020 Annual General Meeting and to qualify for the proposed final dividend, all transfer of share(s), accompanied by the relevant share certificate(s) with the properly completed transfer from(s) either overleaf of separately, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than the respective latest dates and time set out above.

CORPORATE GOVERNANCE PRACTICE

The Company has adopted the principles and code provisions set out in the Corporate Governance Code (the "**CG Code**") as set out in appendix 14 of the Rules Governing the listing of securities on the Stock Exchange (the "**Listing Rules**"). The Company has fully complied with the CG Code, except for the matters disclosed in our announcement dated 23 March 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry, all Directors have fully complied with the required standards set out in the Model Code during the year ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2019.

AUDIT COMMITTEE

The audit committee (the "**Audit Committee**") of the Company was established on 14 June 2018. The chairman of the Audit Committee is Mr. Sze Wing Chun, the independent non-executive Director, and other members included Mr. Ho Ka Chun and Mr. Lee Kwok Tung, Louis, the independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the Stock Exchange's website and on the Company's website.

The primary duties of the Audit Committee are mainly to review the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the unaudited consolidated financial statements for the year ended 31 December 2019. This unaudited final results announcement of the Group for the year ended 31 December 2019 has been reviewed by the Audit Committee.

REVIEW OF UNAUDITED ANNUAL RESULTS

Due to the impact of the novel coronavirus outbreak, the Company's auditors have not completed the audit process for the annual results for the year ended 31 December 2019. In order to keep the shareholders and potential investors informed of the business operations and financial position of the Group, the Board decides to publish the unaudited annual results announcement of the Company for the year ended 31 December 2019 together with the audited comparative figures for the corresponding period in 2018 on the planned date of announcement. The unaudited annual results contained in this announcements have not been agreed with the Company's auditors as required under the Listing Rules. An announcement relating to the audited results will be made when the audit process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants. The unaudited annual results contained herein have been reviewed and agreed by the Audit Committee.

In addition, the Company will despatch the annual report according to the Listing Rule and, in any event, not later than end of April 2020.

FURTHER ANNOUNCEMENT(S)

Following the completion of the audit process, the Company will issue further announcement(s) in relation to the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the audit process.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and that of the Company (www.fusenyy.com). The annual report will be dispatched to the shareholders of the Company and will be available on the website of the Stock Exchange and that of the Company in due course.

APPRECIATION

Mr. Cao Changcheng, the chairman of the Board, would like to express his sincerest gratitude to the shareholders, customers, suppliers and subcontractors for their continuous support. He would also send his warmest thanks to all the management and staff members of the Group for their hard work and dedication.

The financial information contained in this announcement in respect of the annual results of the Group has not been audited and have not been agreed with the Company's auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in securities of the Company.

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

Hong Kong, 31 March 2020

* *For identification purpose only*

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.