

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



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 2020

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 2020, together with the comparative figures for the corresponding period in 2019.

FINANCIAL HIGHLIGHTS

- Our revenue increased by approximately 26.0% from approximately RMB196.4 million in the first half of 2019 to approximately RMB247.5 million in the first half of 2020.
- Our gross profit increased by approximately 24.3% from approximately RMB106.8 million for the first half of 2019 to approximately RMB132.8 million for the first half of 2020.
- Our profit attributable to equity shareholders of the Company increased by approximately 47.7% from approximately RMB23.7 million for the first half of 2019 to approximately RMB34.9 million for the first half of 2020.
- The Board declared an interim dividend of RMB0.45 cents per ordinary share (interim dividend for the first half of 2019: RMB0.30 cents).

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the six months ended 30 June 2020 — unaudited

(Expressed in Renminbi (“RMB”) ’000 unless otherwise indicated)

	Note	Six months ended 30 June	
		2020 RMB’000	2019 RMB’000
Revenue	4	247,502	196,437
Cost of sales		(114,671)	(89,616)
Gross profit		132,831	106,821
Other net income		5,028	8,489
Selling and distribution expenses		(56,421)	(56,891)
General and administrative expenses		(47,758)	(25,915)
Profit from operations		33,680	32,504
Finance income		799	884
Finance costs		(4,833)	(5,814)
Net finance costs		(4,034)	(4,930)
Share of profit of a joint venture		12,231	—
Profit before taxation		41,877	27,574
Income tax expenses	5	(8,447)	(3,842)
Profit for the period		33,430	23,732
Attributable to:			
Equity shareholders of the Company		34,934	23,655
Non-controlling interests		(1,504)	77
Profit for the period		33,430	23,732
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 statements of the Company and overseas subsidiaries		841	625
Total comprehensive income for the period		34,271	24,357
Attributable to:			
Equity shareholders of the Company		35,775	24,280
Non-controlling interests		(1,504)	77
Total comprehensive income for the period		34,271	24,357
Earnings per share			
Basic (RMB cents)	6(a)	4	3
Diluted (RMB cents)	6(b)	4	3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 — unaudited

(Expressed in Renminbi)

		30 June 2020	31 December 2019
	Note	RMB'000	RMB'000
Non-current assets			
Investment property		19,267	19,821
Property, plant and equipment		170,214	124,676
Right-of-use assets		250,838	253,980
Intangible assets		16,968	16,666
Goodwill		7,054	7,054
Interest in a joint venture		55,628	72,103
Deferred tax assets		5,469	5,408
Other assets		5,228	2,126
		<u>530,666</u>	<u>501,834</u>
Current assets			
Inventories		93,370	88,404
Trade receivables	7	133,628	170,164
Prepayments and other receivables		62,418	84,783
Cash and cash equivalents		402,629	331,044
		<u>692,045</u>	<u>674,395</u>
Current liabilities			
Trade and bills payables	8	75,577	68,898
Contract liabilities		5,118	3,796
Accruals and other payables		219,934	194,614
Bank and other loans		209,290	190,000
Current taxation		1,990	3,498
		<u>511,909</u>	<u>460,806</u>
Net current assets		<u>180,136</u>	<u>213,589</u>
Total assets less current liabilities		<u>710,802</u>	<u>715,423</u>

		30 June	31 December
		2020	2019
	<i>Note</i>	RMB'000	RMB'000
Non-current liabilities			
Deferred income		7,818	6,752
Bank and other loans		20,000	20,000
Deferred tax liabilities		9,098	7,131
		<u>36,916</u>	<u>33,883</u>
NET ASSETS		<u>673,886</u>	<u>681,540</u>
CAPITAL AND RESERVES			
Share capital	9	6,614	6,732
Reserves		662,506	666,713
Total equity attributable to equity shareholders of the Company		669,120	673,445
Non-controlling interests		4,766	8,095
TOTAL EQUITY		<u>673,886</u>	<u>681,540</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(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 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

The interim financial results set out in this announcement do not constitute the Group’s interim financial report for the six months ended 30 June 2020 but are extracted from that interim financial report.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), 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 31 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

The interim financial report contains 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 2019 annual financial statements. The 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 Group has applied the following amendments to IFRSs issued by the IASB to these financial statements for the current accounting period:

- Amendments to IFRS 3, Definition of a Business
- Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8, Definition of Material

None of these 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 in this interim financial report. 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	
	2020	2019
	RMB'000	RMB'000
Shuanghuanglian Oral Solutions	154,835	99,891
Shuanghuanglian Injections	24,551	36,879
Others	68,116	59,667
	<u>247,502</u>	<u>196,437</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 2020 and 2019.

(b) Segment information

The Group has one reportable segment. The Group's revenue is substantially generated from the sales of Shuanghuanglian Oral Solutions, Shuanghuanglian Injections and other pharmaceutical products 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.

5 INCOME TAX EXPENSES

Amounts recognised in profit or loss:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current tax — the PRC Enterprise Income Tax		
Provision for the period	6,541	3,139
Deferred tax		
Origination and reversal of temporary differences	<u>1,906</u>	<u>703</u>
	<u>8,447</u>	<u>3,842</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 provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2019: 16.5%) to the six months ended 30 June 2020, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime. For this subsidiary, the first HKD2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 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 during the six months ended 30 June 2020 is 25% (2019: 25%).

According to the Income Tax Law, the Company’s subsidiary, Henan Fusen Pharmaceutical Company Limited (“**Henan Fusen Pharmaceutical**”) was certified as a New and High Technology Enterprise in Henan since 2012, and is entitled to a preferential income tax rate of 15% (2019: 15%), which has been applied for each of the six months ended 30 June 2020 and 2019. The current certification of New and High Technology Enterprise held by Henan Fusen Pharmaceutical will expire 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.

6 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 RMB34,934,000 (six months ended 30 June 2019: RMB23,655,000) and the weighted average of 797,212,602 ordinary shares (2019: 800,000,000) in issue during the reporting period, calculated as follows:

	Six months ended 30 June	
	2020	2019
	'000	'000
Issued ordinary shares at 1 January	800,000	800,000
Effect of purchase of own shares	(2,787)	–
	797,213	800,000

(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 RMB34,934,000 (six months ended 30 June 2019: RMB23,655,000) and the weighted average number of 800,863,369 (2019: 800,000,000) ordinary shares after adjusting the effects of dilutive potential ordinary shares during the reporting period, calculated as follows:

	Six months ended 30 June	
	2020	2019
	'000	'000
Weighted average number of ordinary shares at 30 June	797,213	800,000
Effect of deemed issue of shares under the Company’s share option scheme	3,650	–
	800,863	800,000

7 TRADE RECEIVABLES

	At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Bills receivable*	<u>68,545</u>	<u>102,517</u>
Trade debtors	69,935	72,656
Less: allowance for credit loss	<u>(4,852)</u>	<u>(5,009)</u>
	<u>65,083</u>	<u>67,647</u>
	<u><u>133,628</u></u>	<u><u>170,164</u></u>

* At 30 June 2020 and 31 December 2019, the Group's bills receivable of RMB19,820,000 and RMB23,974,000 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, the Group's management determined not to derecognise the carrying amounts of these bills and the associated trade payables.

Ageing analysis

Bills receivable are bank acceptance bills received from customers, with maturity 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) and net of allowance for credit loss, is as follows:

	At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Current to 3 months	33,692	57,691
3 to 6 months	29,259	7,746
6 to 12 months	1,714	1,855
Over 12 months	<u>418</u>	<u>355</u>
	<u>65,083</u>	<u>67,647</u>

Trade debtors are due within 1 month to 6 months from the date of billing. No interest is charged on the trade receivables.

8 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 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Current to 3 months	35,049	48,454
3 to 6 months	27,149	4,864
6 to 12 months	3,664	5,959
Over 12 months	9,715	9,621
	<u>75,577</u>	<u>68,898</u>

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

9 SHARE CAPITAL

	2020		2019	
	No. of shares	Amount <i>RMB'000</i>	No. of shares	Amount <i>RMB'000</i>
Authorised-ordinary shares of HKD0.01 each:				
At 1 January and 30 June	<u>2,000,000,000</u>	<u>16,354</u>	<u>2,000,000,000</u>	<u>16,354</u>
Ordinary shares, issued and fully paid:				
At 1 January	800,000,000	6,732	800,000,000	6,732
Cancellation of treasury shares	<u>(14,006,000)</u>	<u>(118)</u>	<u>–</u>	<u>–</u>
At 30 June	<u>785,994,000</u>	<u>6,614</u>	<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.

10 DIVIDENDS

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

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend declared after the interim period of RMB0.45 cents (equivalent to HKD0.51 cents) per share (2019: RMB0.30 cents (equivalent to HKD0.33 cents) per share)	<u>3,493</u>	<u>2,400</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 during the interim period

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB0.37 cents (equivalent to HKD0.40 cents) per ordinary share (2019: RMB0.74 cents (equivalent to HKD0.86 cents) per ordinary share)	<u>2,908</u>	<u>5,920</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The revenue and gross profit were approximately RMB247.5 million and RMB132.8 million for the first half of 2020, representing an increase of approximately 26.0% and 24.3% respectively as compared with the corresponding period of 2019. The increase in revenue was mainly attributable to the increase in sales volume in the product named Shuanghuanglian Oral Solutions. The average gross profit margin ratio slightly decreased to approximately 53.7% for the first half of 2020 from approximately 54.4% for the first half of 2019 which was mainly attributable to increase in the cost of raw materials. The Group restructured the sales regime and optimised the distribution channels since 2019, thus the outcome of the reform has been gradually showing positive improvement. The selling and distribution expenses were approximately RMB56.4 million for the first half of 2020, which was similar to approximately RMB56.9 million for that of 2019. The significant increase in the general and administrative expenses was mainly due to the financial impact arising from an extension of the granted option to grantees. Excluding the impact of granted options to grantees, the general and administrative expenses were approximately RMB30.1 million for the first half of 2020, which was similar to approximately RMB25.9 million for that of 2019. The Group's profit attributable to the equity shareholders was approximately RMB34.9 million, representing an increase of approximately 47.7% as compared with the corresponding period of 2019, which was mainly attributable to the increase in the gross profit and the share of profit from a joint venture, Jiangxi Yongfeng Kangde Pharmaceutical Company Limited* (江西永豐康德醫藥有限公司).

Prospects

With the gradual implementation of a series of pharmaceutical reform policies, including the “two-invoices” system, the consistency evaluation of the quality and efficacy of generic drugs, the establishment of the national list of adjuvant drugs and the volume-based procurement policy, the structural adjustment and reform of pharmaceutical industry will take wider and deeper. As at 30 June 2020, the Group has four products under on-going consistency evaluation, namely, Metformin Hydrochloride Sustained Release Tablets (二甲雙胍緩釋片), Metformin Hydrochloride Tablets (二甲雙胍片), Metoprolol Tartrate Tablets (酒石酸美托洛爾片) and Flunarizine Hydrochloride Capsules(鹽酸氟桂利嗪膠囊) and none of the products of the Group is subject to volume-based procurement policy.

Even though the outbreak of novel coronavirus in 2020 has created great market uncertainties, the Group made a significant improvements both in revenue and net profit in the first half of 2020 compared with the first half of 2019. It is believed that pharmaceutical products with stable and reliable quality, controllable production costs and competitive advantages, still have broad market prospect and profitability. During the first half of 2020, the Group has upgraded some production facilities and optimised certain existing equipment, in order to improve production capacities with more competitive production costs. Further upgrade and optimisations are expected to be carried out in the future including production facilities, warehouse and processing facilities. The Group has adjusted and optimised its distribution channels, which enhanced the efficiency in commercial circulation and of the Group in the long run. The Group will closely monitor the performance of distributors and market demand, especially for the uncertainties arising from the pandemic. The Group will continue to cooperate with scientific research institutions in the field of proprietary Chinese medicine products and keep investing in product research and development, such as ongoing consistency. In addition, the Group will deploy and invest in first generic drugs in the future. The Group will continue to enrich the existing product portfolio for sales through various channels and leverage the sales network of the Group to increase the sales volume.

Financial Review

Sales performance

	Unaudited				
	Six months ended 30 June		2019		Changes
	2020			2019	
	<i>Revenue</i>	<i>% of</i>	<i>Revenue</i>	<i>% of</i>	
	<i>RMB'000</i>	<i>total</i>	<i>RMB'000</i>	<i>total</i>	<i>%</i>
Shuanghuanglian Oral Solutions (10 ml)	112,636	45.5%	72,043	36.7%	56.3%
Shuanghuanglian Oral Solutions (20 ml)	42,199	17.0%	27,848	14.2%	51.5%
Subtotal	154,835	62.6%	99,891	50.9%	55.0%
Shuanghuanglian Injections	24,551	9.9%	36,879	18.8%	-33.4%
Compound Ferrous Sulfate Granules	10,044	4.1%	9,580	4.9%	4.8%
Flunarizine Hydrochloride Capsules	9,202	3.7%	7,118	3.6%	29.3%
Others products	48,870	19.7%	42,969	21.9%	13.7%
Subtotal	92,667	37.4%	96,546	49.1%	-4.0%
Total	247,502	100%	196,437	100%	26.0%

Our revenue increased by approximately 26.0% from approximately RMB196.4 million in the first half of 2019 to approximately RMB247.5 million in the first half of 2020, primarily due to the increase in sales volume.

Among our product categories, revenue from sales of Shuanghuanglian Oral Solutions increased by approximately 55% from approximately RMB99.9 million in the first half of 2019 to approximately RMB154.8 million in the first half of 2020, was mainly attributable to demand soared in the Chinese domestic market. Revenue from sales of Shuanghuanglian Injections decreased by approximately 33.4% from approximately RMB36.9 million in the first half of 2019 to approximately RMB24.6 million in the first half of 2020, was mainly attributable to the continuing impact of medicine regulations on injections. Our revenue from other products slightly increased by approximately 13.7% from approximately RMB43.0 million in the first half of 2019 to approximately RMB48.9 million in the first half of 2020, was mainly attributable to our continuous promotions.

Gross profit and margin

Our gross profit increased by approximately 24.3% from approximately RMB106.8 million for the first half of 2019 to approximately RMB132.8 million for the first half of 2020. The increase in gross profit is in line with the approximately 26.0% increase in total revenue for the first half of 2020 and the slight decrease in gross profit margin of approximately 53.7% for the first half of 2020 (approximately 54.4% for the first half of 2019).

Other net income

Our other net income primarily consists of net material and scrap sales income, rental income, 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 2019 and 2020, our selling and distribution expenses amounted to approximately RMB56.9 million and RMB56.4 million respectively, representing approximately 29.0% and 22.8% of our revenue for the respective periods. Since 2019, the Group restructured sales regime and optimised the distribution channels, which led to an increase in distribution efficiency and sales capabilities. Thus, the selling and distribution expenses were decreased slightly.

General and administrative expenses

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

The increase of general and administrative expenses by approximately RMB21.8 million was mainly attributable to the financial impact of the extension of granted options to grantees. Excluding the impact of granted option, the amount of general and administrative expenses is slightly increase by approximately RMB4.2 million in the first half year of 2020 compared with that of 2019. Such increase was mainly attributable to an increase in research expenses and depreciation. The Group carried out expenditure control grimly, especially during the pandemic period.

Net finance costs

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

The net finance cost decreased from approximately RMB4.9 million in the first half of 2019 to approximately RMB4.0 million in the first half of 2020 respectively, mainly attributable to decrease in net foreign exchange loss, offset by the increase in average bank loan balance.

Income tax expenses

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 2019 and 2020, our effective tax rate was 13.9% and 20.2%, respectively. Such increase was mainly due to the non tax deductible expense relating to the extension of granted share options.

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 2020, the total capital expenditure was approximately RMB53.6 million (the first half of 2019: approximately RMB140.2 million). The capital expenditures during the period were mainly incurred for the construction of new production facilities.

Bank and Other Loans

As at 30 June 2020, the Group's short-term borrowings and long-term borrowings amounted to approximately RMB229.3 million (31 December 2019: approximately RMB210.0 million).

	As at 30 June 2020 RMB'000	As at 31 December 2019 RMB'000
Short-term borrowings	209,290	190,000
Long-term borrowings	20,000	20,000
Total	229,290	210,000

The increase in bank and other loans primarily represented loan proceeds made during the first half of 2020.

Capital Structure

The Group's capital structure consists of equity interest attributable to shareholders and liabilities. As at 30 June 2020, the Group's equity interest attributable to shareholders amounted to approximately RMB669.1 million (31 December 2019: approximately RMB673.4 million) in aggregate and total liabilities amounted to approximately RMB548.8 million (31 December 2019: approximately RMB494.7 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 2020, the Group had net current assets of approximately RMB180.1 million (31 December 2019: approximately RMB213.6 million), which included cash and cash equivalents of approximately RMB402.6 million (31 December 2019: approximately RMB331.0 million) and the bank and other loans amounting to approximately RMB229.3 million (31 December 2019: approximately RMB210.0 million).

Gearing Ratio

As at 30 June 2020, the gearing ratio of the Group, which is calculated by dividing total bank and other loans by total equity, increased to 34.0% from 30.8% as at 31 December 2019. The increase was primarily due to (1) the increase in the bank loans borrowed by the Group and (2) the repurchase of shares during the period.

Exchange Risk

The Group conducts business primarily in China with most of its transactions denominated and settled in Renminbi. 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 2020, the Group had a total of 1,209 employees (31 December 2019: 1,214 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 2020, the total staff cost (including Director's emoluments, contributions to defined contribution retirement schemes, bonus and other benefits) amounted to approximately RMB43.1 million (six months ended 30 June 2019: RMB33.0 million).

Commitment

Capital commitments of the Group outstanding as at 30 June 2020 and 31 December 2019 was as follows:

	30 June 2020 RMB'000	31 December 2019 RMB'000
Contracted for	<u>111,834</u>	<u>131,938</u>

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2020.

Pledge of Assets

As at 30 June 2020, 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 RMB162.7 million as of 30 June 2020 (31 December 2019: approximately RMB167.0 million), respectively.

COMPARISON OF BUSINESS STRATEGIES WITH ACTUAL BUSINESS PROGRESS

The shares of the Company (the "**Share(s)**") were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 11 July 2018. The Group is 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 30 June 2020 (the "**Reporting Period**").

Business strategies as stated in the Prospectus

Actual business progress up to 30 June 2020

Establishment of production facilities, warehouse, processing facilities	The Group has further upgraded and optimised certain existing production facilities and equipment.
Advertising and marketing of the Group's products	The Group 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 started to set up its own sales team to strengthen the development and management of medical institutions and chain pharmacies to gradually develop end-sales market.
Research and development activities	The Group continued to cooperate with scientific research institutions in the field of proprietary Chinese medicine products, focused on the mechanism of efficacy and effect. The Group also kept investing in generics drugs research and development, such as ongoing consistency.
Potential merger and acquisition	There was no merger and acquisition during the Reporting Period.
Acquisition of production permits of new types of products	The pharmaceutical industry of China is still relatively fragmented. Given the gradual implementation of marketing authorisation holder regime, there are lots of opportunities for acquisition and merger. The Group will take advantage of the post-listing capital platform to make greater efforts in acquisition. In terms of choice of product, 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 Group mainly represent the legal and other professional service charge.

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 30 June 2020	Remaining balance as at 30 June 2020	Expected timeframe for the remaining utilising net proceeds
			HK\$ million	HK\$ million	HK\$ million
Establishment of production facilities, warehouse, processing facilities	30%	119.0	41.7	77.3	By 30 June 2021
Advertising and marketing of the Group's products	10%	39.7	20.2	19.5	By 30 June 2021
Expansion of distribution and marketing network	10%	39.7	11.1	28.6	By 31 December 2020
Research and development activities	10%	39.7	19.3	20.4	By 31 December 2021
Potential merger and acquisition	15%	59.6	59.6	–	–
Acquisition of production permits of new types of products	15%	59.6	–	59.6	By 31 December 2021
Working capital and general corporate purposes	10%	39.7	31.4	8.3	By 31 December 2020
	<u>100%</u>	<u>397.0</u>	<u>183.3</u>	<u>213.7</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. Throughout the period from 1 January 2020 to 30 June 2020, the Company has complied with all applicable code provisions set out in the Code, except for the matters disclosed in our announcement dated 23 March 2020.

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. During the six months ended 30 June 2020, the Audit Committee consisted 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 (resigned on 10 July 2020) and Mr. Lee Kwok Tung, Louis. Subsequent to the resignation of Mr. Ho Ka Chun on 10 July 2020, the Company was not in compliance with Rule 3.21 of the Listing Rules. Upon the appointment of Dr. To Kit Wa as a member of the Audit Committee on 13 August 2020, the Company is in compliance with Rule 3.21 of the Listing Rules.

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 Audit Committee has discussed with the management of the Company the internal control and financial reporting matters related to the preparation of the unaudited condensed interim financial report for the six months ended 30 June 2020. It has also reviewed the unaudited condensed interim financial report for the six months ended 30 June 2020 with the management and the auditor of the Company and recommended them to the Board for approval.

The interim financial report for the six months ended 30 June 2020 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to shareholders.

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 for the six months ended 30 June 2020.

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

During the six months ended 30 June 2020, the Company repurchased a total of 18,124,000 Shares on the Stock Exchange at an aggregate consideration of (excluding expenses) HK\$61.4 million. Among those repurchased shares, 6,602,000 Shares and 7,404,000 Shares were cancelled during the six months ended 30 June 2020 on 2 June 2020 and 17 June 2020 respectively, and 4,118,000 Shares were subsequently cancelled on 31 August 2020. The issued share capital of the Company was reduced by the par value thereof. Details of the repurchases of shares were as follows:

Month of repurchase	Number of Shares repurchased	Price per Share		Aggregate consideration (excluding expenses) HK\$'000
		Highest HK\$	Lowest HK\$	
May 2020	7,701,000	3.53	3.27	26,349
June 2020	10,423,000	3.47	3.21	35,037

Subsequent to the end of the reporting period and up to the date of this announcement, the Company has repurchased a total of 6,775,000 Shares on the Stock Exchange at an aggregate consideration of (excluding expenses) of HK\$22.5 million (approximately RMB20.3 million equivalent). Such repurchased shares, 3,413,000 Shares were subsequently cancelled on 31 August 2020. The issued share capital of the Company was reduced by the par value thereof. Details of the repurchased after the end of the reporting period are as follows:

Month of repurchase	Number of Shares repurchased	Price per Share		Aggregate consideration (excluding expenses) HK\$'000
		Highest HK\$	Lowest HK\$	
July 2020	6,775,000	3.51	3.14	22,473

The repurchase of shares was made by the Directors, pursuant to the general mandate granted by the Shareholders at the respective annual general meeting held on 28 June 2019 and 30 June 2020 with a view to benefiting the Shareholders as a whole by enhancing the net asset value per share and earnings per share.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2020 and up to the date of this announcement.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Interim Dividend

In view of the performance of the Group and our dividend policy, on 31 August 2020, the directors of the Company declared an interim dividends of RMB0.45 cent per ordinary share for the six months ended 30 June 2020, which has not been recognised as a liability as at 30 June 2020.

Resignation of Independent non-executive Director and non-compliance of the Listing Rules

On 10 July 2020, Mr. Ho Ka Chun (“**Mr. Ho**”) tendered his resignation as an independent non-executive Director, member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee due to his other personal commitments.

Following the resignation of Mr. Ho as an independent non-executive Director, the number of independent non-executive Directors and the members of Audit Committee fell below the minimum number required under Rule 3.10(1) and Rule 3.21 of the Listing Rules and the terms of reference of the Audit Committee. In addition, the number of members of each of the Remuneration Committee and the Nomination Committee no longer comprise a majority of independent non-executive directors required under Rule 3.25 of the Listing Rules and under code provision A.5.1 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

On 13 August 2020, Dr. To Kit Wa (“**Dr. To**”) has been appointed as an independent non-executive Director, a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. Following the appointment of Dr. To, the Company has fulfilled the requirements under Rules 3.10(1), 3.21 and 3.25 of the Listing Rules and code provision A.5.1 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

Except as disclosed above, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors.

INTERIM DIVIDEND

Pursuant to our dividend policy, the Board declared an interim dividend of RMB0.45 cents (equivalent to HK\$0.51 cents, by adopting the prevailing exchange rate on 31 August 2020 set by the People’s Bank of China) per ordinary share (interim dividend for the first half of 2019: RMB0.30 cents).

The interim dividend will be payable on 27 November 2020 to the shareholders of the Company whose names appear on the register of members of the Company on 19 September 2020.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 17 September 2020, to Saturday, 19 September 2020, 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 Wednesday, 16 September 2020.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2020 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 by September 2020.

* *For identification purposes only*

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

Hong Kong, 31 August 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 as executive Directors, and Mr. Sze Wing Chun, Mr. Lee Kwok Tung Louis and Dr. To Kit Wa as independent non-executive Directors.