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Fusen Pharmaceutical Company Limited

福森藥業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1652)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2021, together with the comparative figures for the corresponding period in 2020.

FINANCIAL HIGHLIGHTS

- Our revenue decreased by approximately 13.5% from approximately RMB247.5 million in the first half of 2020 to approximately RMB214.2 million in the first half of 2021.
- Our gross profit decreased by approximately 11.0% from approximately RMB132.8 million for the first half of 2020 to approximately RMB118.2 million for the first half of 2021.
- Our profit attributable to equity shareholders of the Company increased by approximately 25.7% from approximately RMB34.9 million for the first half of 2020 to approximately RMB43.9 million for the first half of 2021.
- The Board declared an interim dividend of RMB0.57 cents per ordinary share (interim dividend for the first half of 2020: RMB0.45 cents).

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

For the six months ended 30 June 2021 — unaudited

(Expressed in Renminbi (RMB)'000 unless otherwise indicated)

	<i>Note</i>	Six months ended 30 June	
		2021	2020
		RMB'000	RMB'000
Revenue	4	214,212	247,502
Cost of sales		(95,980)	(114,671)
Gross profit		118,232	132,831
Other net income		11,059	5,028
Selling and distribution expenses		(50,914)	(56,421)
General and administrative expenses		(31,529)	(47,758)
Profit from operations		46,848	33,680
Finance income		1,212	799
Finance costs		(7,074)	(4,833)
Net finance costs		(5,862)	(4,034)
Share of profit of a joint venture		11,721	12,231
Share of loss of an associate		(1,910)	—
Profit before taxation		50,797	41,877
Income tax expenses	5	(6,988)	(8,447)
Profit for the period		43,809	33,430
Attributable to:			
Equity shareholders of the Company		43,919	34,934
Non-controlling interests		(110)	(1,504)
Profit for the period		43,809	33,430
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		(555)	841
Total comprehensive income for the period		43,254	34,271
Attributable to:			
Equity shareholders of the Company		43,364	35,775
Non-controlling interests		(110)	(1,504)
Total comprehensive income for the period		43,254	34,271
Earnings per share			
Basic (RMB cents)	6(a)	6	4
Diluted (RMB cents)	6(b)	6	4

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021 — unaudited

(Expressed in RMB'000 unless otherwise indicated)

	<i>Note</i>	30 June 2021 RMB'000	31 December 2020 RMB'000
Non-current assets			
Investment property		18,159	18,713
Other property, plant and equipment		320,280	238,002
Right-of-use assets		247,007	247,926
Intangible assets		783	883
Interest in a joint venture		79,369	67,648
Interest in an associate		151,090	–
Deferred tax assets		5,324	5,709
Other assets		2,099	2,099
		<u>824,111</u>	<u>580,980</u>
Current assets			
Trading securities		5,129	15,489
Inventories		121,327	105,415
Trade receivables	7	159,293	183,930
Prepayments and other receivables		121,186	58,495
Cash and cash equivalents		53,802	297,038
		<u>460,737</u>	<u>660,367</u>
Current liabilities			
Trade and bills payables	8	117,005	108,585
Lease liabilities		841	–
Contract liabilities		5,500	13,581
Accruals and other payables		293,196	242,514
Bank and other loans		134,105	178,500
Current taxation		137	1,665
Other financial liabilities		75	2,761
		<u>550,859</u>	<u>547,606</u>
Net current (liabilities)/assets		<u>(90,122)</u>	<u>112,761</u>
Total assets less current liabilities		<u>733,989</u>	<u>693,741</u>

	<i>Note</i>	30 June 2021 RMB'000	31 December 2020 RMB'000
Non-current liabilities			
Deferred income		7,846	8,359
Lease liabilities		1,291	–
Bank and other loans		20,000	20,000
Deferred tax liabilities		8,895	7,133
		<u>38,032</u>	<u>35,492</u>
NET ASSETS		<u>695,957</u>	<u>658,249</u>
CAPITAL AND RESERVES			
Share capital	9	6,479	6,513
Reserves		690,781	652,929
Total equity attributable to equity shareholders of the Company		697,260	659,442
Non-controlling interests		(1,303)	(1,193)
TOTAL EQUITY		<u>695,957</u>	<u>658,249</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 2021 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 23 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 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 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

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 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

Going concern assumption

As at 30 June 2021, current liabilities of the Group exceeded current assets by RMB90,122,000 (31 December 2020: Nil). Considering the current economic conditions and taking into account of the Group's expected capital expenditures in the foreseeable future, management has comprehensively considered the following:

- The Group's continuous net cash inflow from operating activities;
- The Group's ability to raise funds, as needed, through loan financing and equity financing, from the short and long-term perspective, and maintain reasonable financing costs through appropriate financing portfolio.

Based on the above considerations and the Group's cash flow forecast for the twelve months ending 30 June 2022, the board of directors is of the opinion that the Group has sufficient funds to meet its working capital commitments, expected capital expenditure and debt obligations. As a result, the unaudited interim financial report of the Group for the six months ended 30 June 2021 has been prepared on a going concern basis. The interim financial report does not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to IFRSs issued by the IASB to this interim financial report for the current accounting period:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform — phase 2*

None of these amendments 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	
	2021	2020
	RMB'000	RMB'000
Shuanghuanglian Oral Solutions	123,102	154,835
Shuanghuanglian Injections	23,082	24,551
Others	68,028	68,116
	<u>214,212</u>	<u>247,502</u>

Revenue is recognised at point in time.

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 2021 and 2020.

(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 People's Republic of China (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	
	2021	2020
	RMB'000	RMB'000
Current tax — the PRC Enterprise Income Tax		
Provision for the period	4,840	6,541
Deferred tax		
Origination and reversal of temporary differences	2,148	1,906
	<u>6,988</u>	<u>8,447</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% (2020: 16.5%) to the six months ended 30 June 2021, 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% during the six months ended 30 June 2020. 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 2021 is 25% (2020: 25%).

According to the Income Tax Law, the Company's subsidiary, Henan Fusen Pharmaceutical Company Limited ("Henan Fusen") was certified as a New and High Technology Enterprise in Henan since 2012, and is entitled to a preferential income tax rate of 15% (2020: 15%), which has been applied for each of the six months ended 30 June 2021 and 2020. The current certification of New and High Technology Enterprise held by Henan Fusen 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 RMB43,919,000 (six months ended 30 June 2020: RMB34,934,000) and the weighted average of 769,951,000 ordinary shares (2020: 797,213,000) in issue during the reporting period, calculated as follows:

	Six months ended 30 June	
	2021 '000	2020 '000
Issued ordinary shares at 1 January	774,012	800,000
Effect of purchase of own shares	(4,061)	(2,787)
	<u>769,951</u>	<u>797,213</u>
Weighted average number of ordinary shares at 30 June	<u>769,951</u>	<u>797,213</u>

(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 RMB43,919,000 (six months ended 30 June 2020: RMB34,934,000) and the weighted average number of 773,864,000 (2020: 800,863,000) ordinary shares after adjusting the effects of dilutive potential ordinary shares during the reporting period, calculated as follows:

	Six months ended 30 June	
	2021 '000	2020 '000
Weighted average number of ordinary shares at 30 June	769,951	797,213
Effect of deemed issue of shares under the Company's share option scheme	3,913	3,650
	<u>773,864</u>	<u>800,863</u>
Weighted average number of ordinary shares (diluted) at 30 June	<u>773,864</u>	<u>800,863</u>

7 TRADE RECEIVABLES

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Bills receivable*	83,793	133,529
Trade debtors	80,188	53,958
Less: allowance for credit loss	(4,688)	(3,557)
	<u>75,500</u>	<u>50,401</u>
	<u>159,293</u>	<u>183,930</u>

* At 30 June 2021 and 31 December 2020, the Group's bills receivable of RMB40,987,000 and RMB46,346,000 were endorsed to suppliers, 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 bill 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 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Current to 3 months	40,787	42,580
3 to 6 months	30,496	4,589
6 to 12 months	3,613	2,813
Over 12 months	604	419
	<u>75,500</u>	<u>50,401</u>

Trade debtors are due within 1 month to 6 months from the date of billing. No interests are 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 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Current to 3 months	84,567	77,174
3 to 6 months	17,117	18,533
6 to 12 months	5,484	4,454
Over 12 months	9,837	8,424
	<u>117,005</u>	<u>108,585</u>

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

9 SHARE CAPITAL

	2021		2020	
	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	774,012,000	6,513	800,000,000	6,732
Cancellation of treasury shares	<u>(4,078,000)</u>	<u>(34)</u>	<u>(14,006,000)</u>	<u>(118)</u>
At 30 June	<u>769,934,000</u>	<u>6,479</u>	<u>785,994,000</u>	<u>6,614</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

	Six months ended 30 June	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interim dividend declared after the interim period of RMB0.57 cents (equivalent to HKD0.68 cents) per share (2020: RMB0.45 cents (equivalent to HKD0.51 cents) per share)	<u>4,389</u>	<u>3,493</u>

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

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB0.46 cents (equivalent to HKD0.54 cents) per ordinary share (2020: RMB0.37 cents (equivalent to HKD0.40 cents) per ordinary share)	<u>3,560</u>	<u>2,908</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The revenue and gross profit were approximately RMB214.2 million and RMB118.2 million for the first half of 2021, representing a decrease of approximately 13.5% and 11.0% respectively as compared with the corresponding period of 2020.

The decrease in revenue was mainly attributable to the decrease in sales volume in the product named Shuanghuanglian Oral Solutions. The market demand soared in the first half year of 2020 during the pandemic, and tailed off during the same period in 2021. However, our gross profit margin ratio slightly increased by 1.5% to approximately 55.2% in the first half year of 2021 from approximately 53.7% in the same period of 2020. The selling and distribution expenses were approximately RMB50.9 million for the first half of 2021, which decreased from approximately RMB56.4 million of that of 2020. The general and administrative expenses were approximately RMB31.5 million for the first half of 2021, which decreased from approximately RMB47.8 million of that of 2020. The significant decrease in the general and administrative expenses was mainly due to the financial impact arising from an extension of the granted option to grantees in the first half year of 2020. Excluding the impact of granted options to grantees, there is a slight increase by approximately by RMB1.4 million compared to that of 2020. The Group's profit attributable to the equity shareholders was approximately RMB43.9 million, representing an increase of approximately 25.7% as compared with the corresponding period of 2020. It is mainly due to the significant decrease in the general and administrative expenses, which has offset the decrease in gross profit.

Prospects

The outbreak of the novel coronavirus has created great market uncertainties. More structural adjustments and reform of pharmaceutical industry have taken place as a result of the gradual implementation of a series of pharmaceutical reform policies. The market is expected to remain challenging with high amount of competition in the following years. However the Group believe that its 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 2021, the upgrade and optimizations in production facilities, warehouses and processing facilities are being carried out. In 2021, the Group obtained the GSP qualification through the acquisition of Jiangxi Ruiyuan Pharmaceutical Co., Ltd.* (江西瑞源藥業有限公司). The Group will leverage on the platform of Ruiyuan to expand its sales team, while focusing on filling the gaps in the market, and it will also seek to be the sales agent of products with market potential. The Group acquired 34% equity interests in Weihai Rensheng Pharmaceutical Group Company Limited* (威海人生藥業集團股份有限公司) in 2021. The Group indirectly obtained approval of nearly 20 national exclusive traditional Chinese medicines. This will enrich the Group's product categories. Looking forward, the Group will continue to increase investment in product R&D to diversify the product categories.

Financial Review

Sales performance

	Unaudited				
	Six months ended 30 June 2021		2020		Changes %
Revenue RMB'000	% of total	Revenue RMB'000	% of total		
Shuanghuanglian Oral Solutions (10 ml)	89,523	41.8%	112,636	45.5%	(20.5%)
Shuanghuanglian Oral Solutions (20 ml)	33,579	15.7%	42,199	17.0%	(20.4%)
Subtotal	123,102	57.5%	154,835	62.6%	(20.5%)
Shuanghuanglian Injections	23,082	10.8%	24,551	9.9%	(6.0%)
Compound Ferrous Sulfate Granules	10,749	5.0%	10,044	4.1%	7.0%
Flunarizine Hydrochloride Capsules	10,571	4.9%	9,202	3.7%	14.9%
Others products	46,708	21.8%	48,870	19.7%	(4.4%)
Subtotal	91,110	42.5%	92,667	37.4%	(1.7%)
Total	214,212	100%	247,502	100%	(13.5%)

Our revenue decreased by approximately 13.5% from approximately RMB247.5 million in the first half of 2020 to approximately RMB214.2 million in the first half of 2021, primarily due to the decrease in sales volume.

Among our product categories, revenue from sales of Shuanghuanglian Oral Solutions decreased by approximately 20.5% from approximately RMB154.8 million in the first half of 2020 to approximately RMB123.1 million in the first half of 2021, which was mainly attributable to soaring demand in 2020 during the pandemic. Revenue from sales of Shuanghuanglian Injections decreased by approximately 6.0% from approximately RMB24.6 million in the first half of 2020 to approximately RMB23.1 million in the first half of 2021, which was mainly attributable to the continuing impact of medicine regulations on injections. Our revenue from other products slightly decreased by approximately 4.4% from approximately RMB48.9 million in the first half of 2020 to approximately RMB46.7 million in the first half of 2021, which was mainly attributable to the fluctuating demand.

Gross profit and margin

Our gross profit decreased by approximately 11.0% from approximately RMB132.8 million for the first half year of 2020 to approximately RMB118.2 million for the first half year of 2021. The decrease in gross profit is in line with the approximately 13.5% decrease in total revenue for the first half year of 2021. Meanwhile, gross profit margin slightly increased by 1.5% to approximately 55.2% for the first half year of 2021 (approximately 53.7% for the first half of 2020).

Other net income

Our other net income primarily consists of government grants, net realised and unrealised gains on derivative financial assets, net material and scrap sales income, rental income and others. The increase is mainly due to the increase in government grants.

Selling and distribution expenses

Our selling and distribution expenses primarily consist of distribution expenses, commission, advertisement, wages and salaries, promotion expenses and others. In the first half of 2020 and 2021, our selling and distribution expenses amounted to approximately RMB56.4 million and RMB50.9 million respectively, representing approximately 22.8% and 23.8% of our revenue for the respective periods. The decrease in selling and distribution expenses is mainly due to the decrease in distribution expenses and wages and salaries, which amounted to approximately RMB2.1 million and RMB2.4 million respectively. The decrease is in line with the decrease in revenue.

General and administrative expenses

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

The decrease of general and administrative expenses of approximately RMB16.3 million from approximately RMB47.8 million for the first half year of 2020 to approximately RMB31.5 million for the first half year of 2021 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 increased by approximately RMB1.4 million in the first half year of 2021 compared to that of the first half year of 2020. Such slight increase was mainly attributable to the increase in professional fee and depreciation.

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 costs increased from approximately RMB4.0 million in the first half year of 2020 to approximately RMB5.9 million in the first half year of 2021, mainly attributable to the increase in net foreign exchange loss.

Income tax expenses

Income tax primarily represents income tax payable by the Group under relevant PRC income tax rules and regulations. Henan Fusen, 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 year of 2020 and 2021, our effective tax rate was 20.2% and 13.8%, respectively. Such decrease was mainly due to the non tax deductible expense relating to the extension of granted share options in the first half year of 2020.

Capital Expenditures

The Group's capital expenditures primarily consist of payments and deposits for purchase of property, plant and equipment, right-of-use assets and intangible assets. In the first half year of 2021, the total capital expenditure was approximately RMB68.0 million (the first half year of 2020: approximately RMB46.5 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 2021, the Group's short-term borrowings and long-term borrowings amounted to approximately RMB154.1 million (31 December 2020: approximately RMB198.5 million).

	As at 30 June 2021 RMB'000	As at 31 December 2020 RMB'000
Short-term borrowings	134,105	178,500
Long-term borrowings	20,000	20,000
Total	<u>154,105</u>	<u>198,500</u>

The decrease in bank and other loans primarily represented decrease in short-term borrowings made during the first half year of 2021.

Capital Structure

The Group's capital structure consists of equity interest attributable to shareholders and liabilities. As at 30 June 2021, the Group's equity interest attributable to shareholders amounted to approximately RMB697.3 million (31 December 2020: approximately RMB659.4 million) in aggregate and total liabilities amounted to approximately RMB588.9 million (31 December 2020: approximately RMB583.1 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 2021, the Group had net current liabilities of approximately RMB90.1 million (31 December 2020: net current assets of approximately RMB112.8 million), which included cash and cash equivalents of approximately RMB53.8 million (31 December 2020: approximately RMB297.0 million) and the short-term bank and other loans amounting to approximately RMB134.1 million (31 December 2020: approximately RMB178.5 million). As at 30 June 2021, the Group had net current liabilities mainly due to i) the Group indirectly obtained approval of nearly 20 national exclusive trading Chinese medicines by acquired 34% equity interests in Weihai Rensheng Pharmaceutical Group Company Limited* (威海人生藥業集團股份有限公司) in 2021 ii) During the six months ended 30 June 2021, the Group had the construction of new production facilities.

Considering the current economic conditions and taking into account of the Group's expected capital expenditures in the foreseeable future, management has comprehensively considered the following: (i) The Group's continuous net cash inflow from operating activities; and (ii) The Group's ability to raise funds, as needed, through loan financing and equity financing, from the short and long-term perspective, and maintain reasonable financing costs through appropriate financing portfolio.

Gearing Ratio

As at 30 June 2021, the gearing ratio of the Group, which is calculated by dividing total bank and other loans by total equity, decreased to 22.1% from 30.2% as at 31 December 2020. The decrease was primarily due to the decrease in the bank loans borrowed by the Group.

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 2021, the Group had a total of 1,230 employees (31 December 2020: 1,248 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 year of 2021, the total staff cost (including Director's emoluments, contributions to defined contribution retirement schemes, bonus and other benefits) amounted to approximately RMB43.8 million (six months ended 30 June 2020: RMB43.1 million).

Commitment

Capital commitments of the Group outstanding as at 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021 RMB'000	31 December 2020 RMB'000
Contracted for	<u>67,328</u>	<u>103,617</u>

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2021.

Pledge of Assets

As at 30 June 2021, 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 RMB88.3 million as of 30 June 2021 (31 December 2020: approximately RMB158.8 million).

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 2021 (the “**Reporting Period**”).

Business strategies as stated in the Prospectus

Actual business progress up to 30 June 2021

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.

Business strategies as stated in the Prospectus

Actual business progress up to 30 June 2021

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 generic drugs research and development, such as ongoing consistency.

Potential merger and acquisition

The Group acquired 34% equity interests in Weihai Rensheng Pharmaceutical Group Company Limited* (威海人生藥業集團股份有限公司) in May 2021.

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 2021 HK\$ million	Remaining balance as at 30 June 2021 HK\$ million	Expected timeframe for the remaining utilising net proceeds
Establishment of production facilities, warehouse, processing facilities	30%	119.0	119.0	-	-
Advertising and marketing of the Group's products	10%	39.7	31.1	8.6	By 31 December 2021
Expansion of distribution and marketing network	10%	39.7	39.7	-	-
Research and development activities	10%	39.7	36.7	3.0	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	-	-
Working capital and general corporate purposes	10%	39.7	39.7	-	-
	<u>100%</u>	<u>397.0</u>	<u>385.4</u>	<u>11.6</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 2021 to 30 June 2021, save for the F.1.1 of the Code, the Company has complied with all applicable code provisions set out in the Code.

Code provision F.1.1 of the Code requires that the company secretary should be an employee of the Company and have day-to-day knowledge of the Company's affairs. Mr. Wong Tik Man ("Mr. Wong") was appointed as the company secretary of the Company with effect from 29 January 2021. He is an external service provider and he is not an employee of the Company. The Company has thus assigned Mr. Li Zhen, the chief financial officer of the Company, as the primary contact person with Mr. Wong. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Mr. Wong through the contact person assigned. Having in place a mechanism that Mr. Wong will get hold of the Group's development promptly without material delay and with his expertise and experience, the Board is confident that having Mr. Wong as the company secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

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 2021, 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. Lee Kwok Tung, Louis and Dr. To Kit Wa.

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 2021. It has also reviewed the unaudited condensed interim financial report for the six months ended 30 June 2021 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 2021 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 2021.

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

During the six months ended 30 June 2021, the Company repurchased a total of 500,000 Shares on the Stock Exchange at an aggregate consideration of (excluding expenses) HK\$2.375 million. Such repurchased shares were cancelled during the six months ended 30 June 2021 on 7 June 2021. 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\$	
January 2021	500,000	4.75	4.75	2,375

The repurchase of shares was made by the Directors, pursuant to the general mandate granted by the Shareholders at the annual general meeting held on 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 2021 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 23 August 2021, the directors of the Company declared an interim dividends of RMB0.57 cent per ordinary share for the six months ended 30 June 2021, which has not been recognised as a liability as at 30 June 2021.

Pursuant to our dividend policy, the Board declared an interim dividend of RMB0.57 cents (equivalent to HK\$0.68 cents, by adopting the prevailing exchange rate on 23 August 2021 set by the People's Bank of China) per ordinary share (interim dividend for the first half of 2020: RMB0.45 cents (equivalent to HK\$0.51 cents) per ordinary share).

The interim dividend will be payable on 19 November 2021 to the Shareholders of the Company whose names appear on the register of members of the Company on 24 September 2021.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 21 September 2021, to Friday, 24 September 2021, both dates inclusive, during which period no transfer of Shares will be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, 20 September 2021.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2021 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 2021.

* *For identification purposes only*

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

Hong Kong, 23 August 2021

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.