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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB385.7 million for the year ended 31 December 2021, representing a decrease of approximately 20.8% as compared to approximately RMB486.9 million for the year ended 31 December 2020.
- Gross profit decreased by approximately 20.7% from approximately RMB266.1 million for the year ended 31 December 2020 to approximately RMB211.1 million for the year ended 31 December 2021.
- Gross profit margin was approximately 54.7% for the year ended 31 December 2021, which was consistent with that for the year ended 31 December 2020.
- Profit attributable to the equity shareholders of the Company was approximately RMB16.6 million for the year ended 31 December 2021 as compared to profit of approximately RMB70.1 million for the year ended 31 December 2020.
- Basic earnings per share was approximately RMB2 cents for the year ended 31 December 2021, and approximately RMB9 cents for the year ended 31 December 2020.
- The Board resolved to recommend the payment of a final dividend of RMB0.34 cents per ordinary share for the year ended 31 December 2021 (final dividend of the Company for the year ended 31 December 2020: RMB0.46 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 consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2021, together with the comparative figures for the year ended 31 December 2020.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

(Expressed in RMB'000 unless otherwise indicated)

	Note	Year ended 31 December	
		2021 RMB'000	2020 RMB'000
Revenue	3	385,664	486,854
Cost of sales		<u>(174,531)</u>	<u>(220,787)</u>
Gross Profit		211,133	266,067
Other net (loss)/income	4	(2,815)	4,734
Selling and distribution expenses		(90,946)	(107,407)
General and administrative expenses		(65,235)	(78,874)
Impairment loss on goodwill and intangible assets		<u>–</u>	<u>(22,637)</u>
Profit from operations		52,137	61,883
Finance income		2,558	1,429
Finance costs		<u>(9,655)</u>	<u>(9,159)</u>
Net finance costs		<u>(7,097)</u>	<u>(7,730)</u>
Impairment on interest in a joint venture		(19,280)	–
Share of profit of a joint venture		11,669	24,252
Share of loss of an associate		(13,638)	–
Profit before taxation	5	23,791	78,405
Income tax	6	<u>(7,178)</u>	<u>(15,737)</u>
Profit for the year		16,613	62,668

		Year ended 31 December	
	<i>Note</i>	2021	2020
		RMB'000	RMB'000
Attributable to:			
Equity shareholders of the Company		16,645	70,131
Non-controlling interests		(32)	(7,463)
		<hr/>	<hr/>
Profit for the year		16,613	62,668
		<hr/> <hr/>	<hr/> <hr/>
Other comprehensive income for the year (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		(1,244)	(2,072)
		<hr/>	<hr/>
Other comprehensive income for the year		(1,244)	(2,072)
		<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income for the year		15,369	60,596
Attributable to:			
Equity shareholders of the Company		15,401	68,059
Non-controlling interests		(32)	(7,463)
		<hr/>	<hr/>
Total comprehensive income for the year		15,369	60,596
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share	7		
Basic (<i>RMB cents</i>)		2	9
Diluted (<i>RMB cents</i>)		2	9
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in RMB'000 unless otherwise indicated)

		As at 31 December	
	Note	2021	2020
		RMB'000	RMB'000
Non-current assets			
Investment property		17,605	18,713
Other property, plant and equipment		281,877	238,002
Right-of-use assets		224,157	247,926
Intangible assets		683	883
Interest in a joint venture		60,037	67,648
Interest in an associate		138,027	–
Deferred tax assets		5,629	5,709
Other assets		2,099	2,099
		<u>730,114</u>	<u>580,980</u>
Current assets			
Trading securities		–	15,489
Other financial assets		642	–
Inventories		121,845	105,415
Trade receivables	9	157,581	183,930
Prepayments and other receivables	10	148,091	58,495
Cash and cash equivalents		81,063	297,038
		<u>509,222</u>	<u>660,367</u>
Current liabilities			
Trade and bills payables	11	102,115	108,585
Lease liabilities		1,833	–
Contract liabilities		4,617	13,581
Accruals and other payables		219,069	242,514
Bank and other loans		160,915	178,500
Current taxation		–	1,665
Other financial liabilities		717	2,761
		<u>489,266</u>	<u>547,606</u>
Net current assets		<u>19,956</u>	<u>112,761</u>
Total assets less current liabilities		<u>750,070</u>	<u>693,741</u>

		As at 31 December	
	<i>Note</i>	2021	2020
		RMB'000	RMB'000
Non-current liabilities			
Deferred income		10,508	8,359
Lease liabilities		1,940	–
Bank and other loans		76,000	20,000
Deferred tax liabilities		4,678	7,133
		<u>93,126</u>	<u>35,492</u>
Net assets		<u>656,944</u>	<u>658,249</u>
Capital and reserves			
Share capital	12	6,479	6,513
Reserves		651,690	652,929
Total equity attributable to equity shareholders of the Company		658,169	659,442
Non-controlling interests		(1,225)	(1,193)
Total equity		<u>656,944</u>	<u>658,249</u>

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 is principally engaged in manufacturing and sale of pharmaceutical products.

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.

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 accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

Going concern assumption

The COVID-19 pandemic and the changes in the pharmaceutical policies in the People’s Republic of China (the “PRC”) brought along various challenges to the Group’s operation in 2021. The Group’s turnover, profit and operating cash flows for the year ended 31 December 2021 decreased by 21%, 73% and 67% respectively. As at 31 December 2021, net current assets of the Group was RMB19,956,000, representing a decrease over 80% as compared to RMB112,761,000 as at 31 December 2020. Considering the current economic conditions, management has comprehensively considered (i) the Group’s cash flow forecast for the year ending 31 December 2022; (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, 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 consolidated financial statements of the Group for the year ended 31 December 2021 have been prepared on a going concern basis.

The functional currency of the Company is Hong Kong dollars (HKD). The Company's primary subsidiaries were established 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 conducted in 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 2021 comprise the Company and its subsidiaries and the Group's interest in a joint venture and an associate.

The measurement basis used in the preparation of the financial statements is the historical cost except for derivatives and other financial assets measured as fair value through profit or loss ("FVPL").

(c) 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 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest Rate Benchmark Reform — phase 2*
- Amendments to IFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*

None of these amendments has had a material effect on how the Group's results and financial position for the current period have been prepared or presented in these consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. In particular, the Group does not take advantage of the practical expedient available under the amendments to IFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021* on lease modifications.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Shuanghuanglian Oral Solutions	222,891	295,241
Shuanghuanglian Injections	34,758	46,036
Others	128,015	145,577
	385,664	486,854

Revenue is recognised at a point in time.

During the year ended 31 December 2021, one of the Group's customers (2020: one customer) with whom transactions have exceeded 10% of the Group's revenue. Revenue from sales of pharmaceutical products to this customer amounted to RMB51,504,000 (2020: RMB61,398,000).

(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.

4 OTHER NET (LOSS)/INCOME

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Material and scrap sales income, net	1,626	1,458
Rental income	574	601
Government grants	7,909	2,993
Net realised and unrealised (losses)/gains of listed trading securities at FVPL	(1,730)	2,966
Net unrealised losses of other financial assets at FVPL	(13)	–
Net realised and unrealised gains/(losses) on derivative financial instruments	2,044	(2,761)
Net losses on disposal of long-term assets	(12,037)	(181)
Others	(1,188)	(342)
	(2,815)	4,734

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Salaries and wages	54,082	55,836
Contributions to defined contribution retirement schemes	6,813	724
Bonuses and other benefits	14,705	14,108
Share-based payment expenses	–	17,632
	75,600	88,300

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. Contributions to the scheme vest immediately, there is no forfeited contribution that may be used by the Group to reduce the existing level of contribution. According to the Notice on Periodic Reduction and Exemption of Corporate Social Insurance (Ren She Bu Fa [2020] No.11) issued by Ministry of Human Resources and Social Security of PRC, Ministry of Finance of PRC and State Taxation Administration of PRC, some subsidiaries of the Group enjoyed a reduction of social insurance payment ranged from 50% to 100% for the period from 1 February 2020 to 31 December 2020.

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	
	2021	2020
	RMB'000	RMB'000
Cost of inventories*	175,373	221,873
Research and development costs	10,440	11,493
Depreciation of investment property and other property, plant and equipment	17,229	16,203
Depreciation of right-of-use assets	6,356	6,054
Amortisation of intangible assets	200	200
Auditors' remuneration — audit services	4,200	3,800
Recognition of credit losses on trade and other receivables	905	4,961

* Cost of inventories includes RMB34,778,000 in 2021 (2020: RMB49,515,000), relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Current tax — PRC Enterprise Income Tax Provision for the year	11,828	17,766
Over-provision in respect of previous years	(2,275)	(1,730)
	9,553	16,036
Deferred tax Origination and reversal of temporary differences	(2,375)	(299)
	7,178	15,737

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 2021 (2020: Nil) and is not subject to any Hong Kong Profits tax. Hong Kong Profits tax rate of 2021 is 16.5% (2020: 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 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%). The current certification of New and High Technology Enterprise held by Henan Fusen will be expired on 27 October 2024.

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	
	2021	2020
	RMB’000	RMB’000
Profit before taxation	<u>23,791</u>	<u>78,405</u>
Tax calculated at statutory tax rates applicable to profits in the respective jurisdictions	5,948	19,601
Tax effect of		
Preferential income tax rates applicable to a PRC subsidiary	(6,121)	(11,240)
Non-deductible expenses	221	7,956
Share of profit of a joint venture	(2,917)	(6,063)
Share of loss of an associate	3,409	–
Unused tax losses not recognised	9,108	3,315
Over-provision in respect of previous years	(2,275)	(1,730)
PRC dividends withholding tax	<u>(195)</u>	<u>3,898</u>
Income tax	<u>7,178</u>	<u>15,737</u>

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 RMB16,645,000 (2020: RMB70,131,000) and the weighted average of 769,622,000 ordinary shares (2020: 786,075,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2021 '000	2020 '000
Issued ordinary shares at 1 January	774,012	800,000
Effect of repurchase of shares	<u>(4,390)</u>	<u>(13,925)</u>
Weighted average number of ordinary shares at 31 December	<u><u>769,622</u></u>	<u><u>786,075</u></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 RMB16,645,000 (2020: RMB70,131,000) and the weighted average number of issued ordinary shares of 770,313,000 (2020: 790,163,000 shares) after adjusting the effects of dilutive potential ordinary shares during the year, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2021 '000	2020 '000
Weighted average number of ordinary shares at 31 December	769,622	786,075
Effect of deemed issue of shares under the Company's share option scheme	<u>691</u>	<u>4,088</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><u>770,313</u></u>	<u><u>790,163</u></u>

16,000,000 share options were granted on 19 July 2019 under share option scheme of the Company adopted on 14 June 2018. On 30 June 2020, the exercise period for the outstanding options was extended and not yet exercised by the grantees as at 31 December 2021.

8 DIVIDENDS

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interim dividend declared of RMB0.57 cents (equivalent to HKD0.68 cents) per ordinary share (2020: RMB0.45 cents (equivalent to HKD0.51 cents) per ordinary share)	4,389	3,488
Final dividend proposed after the end of the reporting period of RMB0.34 cents (equivalent to HKD0.42 cents) per ordinary share (2020: RMB0.46 cents (equivalent to HKD0.54 cents) per ordinary share)	2,618	3,525

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.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the year:

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

During the year ended 31 December 2021, the dividends of RMB8,306,000 were paid to the equity shareholders of the Company (2020: RMB3,145,000).

9 TRADE RECEIVABLES

	As at 31 December	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Bills receivable*	101,145	133,529
Trade debtors	60,369	53,958
Less: allowance for credit loss	(3,933)	(3,557)
	<u>56,436</u>	<u>50,401</u>
	<u>157,581</u>	<u>183,930</u>

* At 31 December 2021, the Group's bills receivable of RMB41,550,000 and RMB38,460,000 (2020: RMB46,346,000 and RMB7,304,000) were endorsed to suppliers and discounted to banks, respectively. As the Group has not transferred the substantial risks and rewards relating to these bills receivable, the Group's management determined not to derecognise the carrying amounts of these bills receivable and the associated trade payables settled.

Ageing analysis

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

As of the end of the 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	
	2021	2020
	RMB'000	RMB'000
Current to 3 months	42,815	42,580
3 to 6 months	5,522	4,589
6 to 12 months	7,457	2,813
Over 12 months	642	419
	<u>56,436</u>	<u>50,401</u>

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 PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Receivables in connection with compensation for relocation of production facilities from local government	42,744	–
Dividends receivable	28,707	28,707
Advances to a joint venture and accrued interests	36,913	–
Prepayments to related parties	2,885	736
Prepayments for raw material and service charges	7,128	2,088
Income tax recoverable	437	–
Others	29,277	26,964
	<u>148,091</u>	<u>58,495</u>

11 TRADE AND BILLS PAYABLES

Trade and bills payables are analysed as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Trade payables		
Third parties	98,061	104,688
Amounts due to related parties	4,054	3,897
	<u>102,115</u>	<u>108,585</u>

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	
	2021	2020
	RMB'000	RMB'000
Current to 3 months	42,570	77,174
3 to 6 months	24,023	18,533
6 to 12 months	16,022	4,454
Over 12 months	19,500	8,424
	<u>102,115</u>	<u>108,585</u>

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

12 SHARE CAPITAL

	2021		2020	
	No. of shares	Amount RMB'000	No. of shares	Amount RMB'000
Authorised-ordinary shares of HKD0.01 each:				
At 1 January and 31 December	<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>(25,988,000)</u>	<u>(219)</u>
At 31 December	<u>769,934,000</u>	<u>6,479</u>	<u>774,012,000</u>	<u>6,513</u>

The holders of ordinary shares as at 31 December 2021 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

Overview

2021 was very challenging for the operations of the Group. The COVID-19 pandemic, natural disasters and the changes in the pharmaceutical policies of the PRC brought along various challenges to the Group's operations. In summer and autumn of 2021, Henan province suffered from severe flood and the spread of the COVID-19. As the most important sales region of the Group, the special condition of Henan had a more profound impact on the overall sales of the Group. With the gradual easing of the flood and the pandemic, there is a recovery in the Group's sales. Despite serious challenges, the Group donated RMB3.0 million to Henan Red Cross for flood relief, reflecting the Group's social responsibility and commitment.

The PRC has implemented a centralised volume-based drug procurement since 2018. Ceftazidime for injection (Cephradine), the core product of the Group's joint venture Jiangxi Yongfeng Kangde Pharmaceutical Company Limited* (江西永豐康德醫藥有限公司) (“**Jiangxi Yongfeng Kangde**”), was listed on the fifth national centralised procurement list in 2021, resulting in a more significant impact in the sales of Cephradine in the fourth quarter of 2021. Jiangxi Yongfeng Kangde has actively responded to market changes, took advantage of its own sales team and applied differentiated sales strategy. It is expected that with the gradual implementation of annual procurement limit of Cephradine, there will be a recovery in sales of the product in the second quarter of 2022. It is believed that imported original drugs with consistent quality and precise efficacy will still have its share in the Chinese market.

In terms of production, the construction of the new plant was basically completed in 2021. A new production license was obtained in 16 November 2021 and the operations of the plant can be officially commenced. Compared with the old plant, the new plant has a higher production capacity and more modernised production equipment, laying a solid foundation for the Group to expand its scale of sales and enhance its product quality in the future. Meanwhile, product supply was unstable due to the switch of production capacity between new and old plants, and this affected the sales of the Group in 2021 to a certain extent. In addition, certain old equipment of the old plant can no longer satisfy the modernised production needs in the future and do not have the potential for further upgrade. Therefore, the Group disposed the old equipment and recognised the corresponding asset disposal losses in 2021.

In October 2020, the Group received a notification from the local government, requiring the Group to relocate part of its production facilities due to zone development requirements of the area. In December 2021, the Group entered into a compensation agreement with the local government, and pursuant to the agreement, the local government will compensate the Group in the amount of approximately RMB42,744,000 for the relocation. At 31 December 2021, the Group has substantially completed the relocation and the related property, plant and equipment and the land use right were disposed of. A net loss of RMB13,035,000 on the relocation has been recognised in “other net loss — net losses on disposal of long-term assets” in the statement of profit or loss and other comprehensive income in 2021.

The Group’s equity investment in 34% of equity interest of Weihai Rensheng Pharmaceutical Group Company Limited* (威海人生藥業集團股份有限公司) (“**Weihai Rensheng**”) was completed in May 2021. Weihai Rensheng obtained approval of nearly 20 national exclusive traditional Chinese medicines, covering treatment areas including orthopedics, dermatology and pediatrics. After completion of the investment by the Group, Weihai Rensheng’s operating capital was replenished and capital structure was optimised. Meanwhile, a new sales team was introduced to the management and market strategies were adjusted, hence sales increased in the second half of 2021. However, Weihai Rensheng was still in loss-making position by the end of 2021. The Group bore the loss in proportion to its equity interest in Weihai Rensheng and recognised the loss in 2021.

Business Review

The revenue and gross profit were approximately RMB385.7 million and RMB211.1 million in 2021, representing a decrease of approximately 20.8% and 20.7% respectively as compared with the corresponding period of 2020. The decrease in product sales was mainly attributable to the impact of the pandemic, the flood in Henan during summer and autumn of 2021 and the product supply shortage caused by construction of the Group’s new plant. The gross profit margin of the Group’s product was approximately 54.7% in 2021, basically in line with that of 2020. The selling and distribution expenses were approximately RMB90.9 million in 2021, representing a decrease as compared with approximately RMB107.4 million for the corresponding period of 2020. The general and administrative expenses were approximately RMB65.2 million in 2021, representing a decrease from approximately RMB78.9 million of the corresponding period 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. The operating profit of the Group amounted to approximately RMB52.1 million in 2021, representing a decrease of approximately RMB9.8 million or approximately 15.8% as compared with RMB61.9 million in 2020. This is mainly due to the decline in operational revenue. Due to the changing market conditions, the joint venture, Jiangxi Yongfeng Kangde, recognised asset losses such as receivables. Newly invested Weihai Rensheng was at the stage of adjustment, and its operations were loss-making. The

Group recognised losses of RMB7.6 million and RMB13.6 million during 2021 in the proportion of the corresponding shareholdings. The profit attributable to the equity shareholders of the Company amounted to approximately RMB16.6 million in 2021, representing a decrease of approximately RMB53.5 million in the corresponding period of 2020, mainly due to the impairment on interest in a joint venture, namely Jiangxi Yongfeng Kangde and loss of an associate, namely Weihai Rensheng. Henan Fusen Pharmaceutical Company Limited* (河南福森藥業有限公司) (“**Henan Fusen**”), a wholly-owned subsidiary of the Company, continued to record earnings, laying a solid foundation for the Group’s continuous healthy business development.

Outlook

Despite various challenges, the management of the Group is confident in overcoming the obstacles. Commencement of operations of the new plant was the basis of enhancement in production capacity and product quality and it made production of new products possible. In 2021, the Group successively resumed the production of Nicardipine Hydrochloride Injection and Propranolol Hydrochloride Tablets, among which Nicardipine Hydrochloride Injection won the tender in the centralised procurement of pharmaceutical products in 14 provinces led by the Henan province in December 2021, creating an opportunity for sales improvement. The Group will continue to look for products with market potential for acquisition, research and development or agency to gradually optimise the product structure of the Group.

In terms of product research and development, the Group’s Metformin Hydrochloride Sustained Release Tablets passed consistency evaluation. Consistency evaluation applications of Flunarizine Hydrochloride Capsules and Metoprolol Tartrate Tablets were submitted to Center for Drug Evaluation, NMPA for evaluation. Research and development of preparation of original drug and injection of brivaracetam for the treatment of Epilepsy has started. In terms of the research and development of Chinese medicine, the Group continues to conduct research and development of existing product. Pharmacological and toxicological research of Yuanhu Zhitong Oral Solutions (元胡止痛口服液) and Ganweikang Tablets (肝維康片) has been completed and relevant academic articles have been published. Pharmacological research on three classic ancient prescriptions has been completed. Preparations prepared by hospitals will be developed in cooperation with major hospitals of Chinese medicine.

In order to enhance the Group’s research and development ability, Jiaheng (Zhuhai Hengqin) Pharmaceutical Technology Company Limited* (嘉亨(珠海橫琴)醫藥科技有限公司) (“**Jiaheng**”) was incorporated in 2021 in Traditional Chinese Medicine Science and Technology Industrial Park of Co-operation between Guangdong and Macao in Hengqin, Zhuhai as the research and development centre of the Group’s proprietary Chinese medicine and chemical medicine. Jiaheng owns independent research and development laboratories and equipment, and will gradually take up the research and development projects of the Group. The establishment of Jiaheng will further enhance

the research and development ability of the Group. Jiaheng is qualified of being a Marketing Authorization Holder (MAH) as well.

Looking forward, it is expected that the social and economic impacts of the COVID-19 pandemic will last for a while in 2022. The Group will swiftly respond to various changes, continuously optimize product structure and sales system, and enhance product sales to cope with challenges of the market.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately RMB101.2 million, or 20.8%, from approximately RMB486.9 million for the year ended 31 December 2020 to approximately RMB385.7 million for the year ended 31 December 2021. The following table sets out a breakdown of the Group's revenue generated from principal products during the years ended 31 December 2021 and 2020:

	Year ended 31 December				
	2021 <i>Revenue</i> <i>RMB'000</i>	<i>% of</i> <i>total</i>	2020 <i>Revenue</i> <i>RMB'000</i>	<i>% of</i> <i>total</i>	Growth rate %
Shuanghuanglian Oral Solutions (10 ml)	163,606	42.4%	219,781	45.1%	-25.6%
Shuanghuanglian Oral Solutions (20 ml)	59,285	15.4%	75,460	15.5%	-21.4%
Subtotal	222,891	57.8%	295,241	60.6%	-24.5%
Shuanghuanglian Injections Compound Ferrous Sulfate Granules	34,758	9.0%	46,036	9.5%	-24.5%
	21,648	5.6%	22,123	4.5%	-2.1%
Flunarizine Hydrochloride Capsules	20,647	5.4%	18,844	3.9%	9.6%
Others products	85,720	22.2%	104,610	21.5%	-18.1%
Subtotal	162,773	42.2%	191,613	39.4%	-15.1%
Total	385,664	100.0%	486,854	100.0%	-20.8%

The decrease in revenue of the Group was primarily due to the decrease in the sales of Shuanghuanglian Oral Solutions and Shuanghuanglian Injections.

Cost of sales

Cost of sales decreased by approximately RMB46.3 million, or 21.0%, from approximately RMB220.8 million for the year ended 31 December 2020 to approximately RMB174.5 million for the year ended 31 December 2021. Such decrease was generally in line with the decrease in revenue.

Gross profit and gross profit margin

Gross profit decreased by approximately RMB55.0 million from approximately RMB266.1 million for the year ended 31 December 2020 to approximately RMB211.1 million for the year ended 31 December 2021. The Group's profit margin was approximately 54.7% for the year ended 31 December 2021, which was consistent with that for the year ended 31 December 2020.

Other net (loss)/income

Our other net loss in 2021 primarily consists of net losses on disposal of long-term assets, net material and scrap sales income, government grants and others. The other net loss decreased by approximately RMB7.5 million to approximately RMB2.8 million for the year ended 31 December 2021 from that of 2020, primarily due to the net effect of government grants and loss on disposal of long-term assets.

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 decreased by approximately RMB16.5 million, or 15.4%, from approximately RMB107.4 million for the year ended 31 December 2020 to approximately RMB90.9 million for the year ended 31 December 2021, mainly represented by the approximately RMB16.2 million decrease in service fee.

General and administrative expenses

Our general and administrative expenses primarily consist of wages and salaries, consultant, research and development cost, depreciation and others. The decrease of the general and administrative expenses by approximately RMB13.7 million, or 17.4%, from approximately RMB78.9 million for the year ended 31 December 2020 to approximately RMB65.2 million for the year ended 31 December 2021, was mainly due to the financial impact arising from an extension of the granted option to grantees in 2020.

Impairment on interest in a joint venture

Impairment on interest in a joint venture was arising from Jiangxi Yongfeng Kangde. The core product of the Jiangxi Yongfeng Kangde was listed on the fifth national centralized procurement list in 2021. With the change in market and regulatory environment, the financial benefits of Jiangxi Yongfeng Kangde will not be realised as expected before. The Group is of the opinion, the carrying amount of the investment in a joint venture was impaired at 31 December 2021.

Share of profit of a joint venture

Share of profit of a joint venture represented the Group interests decrease by approximately RMB12.5 million from approximately RMB24.2 million profit in 2020 to approximately RMB11.7 million profit in 2021. The Group interests is due from Jiangxi Yongfeng Kangde, whose 35.8% shares are owned by the Group.

Share of loss of an associate

Share of loss of an associate represented the loss appropriated from Weihai Rensheng after the acquisition 34% shares of Weihai Rensheng in May 2021. The loss in Weihai Rensheng was mainly due to the fixed expenses and overhead costs.

Income tax expenses

Income tax primarily represents income tax payable by us under relevant PRC income tax rules and regulations. Henan Fusen, our wholly-owned 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 30.2% and 20.1% in 2021 and 2020 respectively. The increase of effective tax rate is mainly due to the recognition of loss arising from a joint venture and an associate.

Profit and total comprehensive income for the year

As a result of the foregoing, the total comprehensive income for the year decreased by approximately RMB45.2 million, or 74.6%, from approximately RMB60.6 million for the year ended 31 December 2020 to approximately RMB15.4 million for the year ended 31 December 2021. The significant decrease is mainly due to the impairment on interest in a joint venture and loss arising from an associate.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2021, the Group had net current assets of approximately RMB20.0 million (2020: RMB112.8 million) and cash and cash equivalents of approximately RMB81.1 million (2020: RMB297.0 million).

As at 31 December 2021, the Group's total equity attributable to shareholders of the Company amounted to approximately RMB658.2 million (2020: RMB659.4 million), and the Group's total debt amounted to approximately RMB236.9 million (2020: RMB198.5 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 2021, the gearing ratio of the Group, which is calculated as the total debt divided by the total equity, was approximately 36.1% (2020: 30.2%). The total debt represents the interest-bearing bank and other loans as at the year end.

CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2021 and 2020 not provided for in the financial statements were as follows:

	As at 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	1,819	103,617

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2021 (2020: Nil).

INFORMATION ON EMPLOYEES

As at 31 December 2021, the Group employed 1,243 employees (2020: 1,248 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 2021, the total staff cost (including Directors' emoluments, contributions to defined contribution retirement schemes, bonus and other benefits, share-based payment expenses) amounted to approximately RMB75.6 million (2020: RMB88.3 million).

USE OF PROCEEDS

The shares of the Company have been listed and traded on the Main Board of the Stock Exchange since 11 July 2018 (the “**Listing**”). The net proceeds from the Listing (after deducting the underwriting fees and other listing expenses borne by the Company) amounted to approximately HK\$397.0 million (the “**Actual Net Proceeds**”) and was planned to be used for the purposes as disclosed in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 28 June 2018.

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	%	Actual Net Proceeds HK\$ million	Actual use of the Actual Net Proceeds as at the date of this announcement HK\$ million
Establishment of production facilities, warehouse, processing facilities which are expected to be in full use in 2020	30%	119.0	119.0
Advertising and marketing of our products	10%	39.7	39.7
Expansion of distribution and marketing network	10%	39.7	39.7
Research and development activities	10%	39.7	39.7
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>397.0</u>

The Actual Net Proceeds have been fully utilised as at the date of this announcement.

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 Group's capital structure consists of equity interest attributable to shareholders and liabilities. As at 31 December 2021, the Group's equity interest attributable to shareholders amounted to approximately RMB658.2 million (31 December 2020: approximately RMB659.4 million) in aggregate and total liabilities amounted to approximately RMB582.4 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.

CHARGE ON GROUP ASSETS

As at 31 December 2021 and 2020, certain bank borrowings of the Group were secured by the Group's property, plant and equipment and land use rights, which had an aggregate carrying amount of RMB87.1 million and RMB158.8 million as of 31 December 2021 and 2020, respectively.

FOREIGN EXCHANGE EXPOSURE

The Group conducts business primarily in the PRC with most of its transactions denominated and settled in Renminbi. The Group has entered into certain cross-currency swap contract to mitigate the effect of its foreign currency exposure arising from the bank loans denominated in USD. 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

On 31 December 2020, Weihai Rensheng, Weihai Haoyang Health Technology Company Limited* (威海浩洋健康科技有限公司) (“**Weihai Haoyang**”), Mr. Miao Qizhuang* (苗其壯先生) (“**Mr. Miao**”) and Henan Fusen entered into an investment framework agreement (“**Agreement**”) for the acquisition of 34% of the equity interest of Weihai Rensheng by Henan Fusen from Weihai Haoyang (the “**Acquisition**”).

Weihai Rensheng is principally engaged in the production and sale of proprietary Chinese medicine in the PRC.

Upon completion of the Acquisition in May 2021, the Group owned 34% equity interest in Weihai Rensheng.

Save as disclosed in this announcement, during the year ended 31 December 2021 and up to the date of this announcement, the Group did not perform any material acquisition or disposal of subsidiaries and associates.

EVENT AFTER THE REPORTING PERIOD

There is no significant event subsequent to 31 December 2021 and up to the date of this announcement which would materially affect the Group's operations and financial performance.

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 RMB0.34 cents per ordinary share for the year ended 31 December 2021 (equivalent to HK\$0.42 cents by adopting the prevailing exchange rate on 23 March 2022 set by the People's Bank of China) (2020: RMB0.46 cents) to the shareholders of the Company whose names appear on the register of Members of the Company on Tuesday, 14 June 2022.

The said final dividend will be paid in cash on 8 July 2022, subject to: (i) the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on Tuesday, 31 May 2022 (the “**2022 Annual General Meeting**”); and (ii) the audited annual results of the Group for the year ended 31 December 2021 upon completion of the audit process being consistent in all material respects with the annual results set out herein. Details of dividend for the year ended 31 December 2021 are set out in Note 8 to the financial statements of the Company contained in this announcement.

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 2022 Annual General Meeting:

Latest time to lodge transfer documents for registration:	4:30 p.m., Tuesday, 24 May 2022
Closure of register of members:	Wednesday, 25 May 2022 to Tuesday, 31 May 2022 (both days inclusive)
Record date:	Tuesday, 31 May 2022

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

Latest time to lodge transfer documents for registration:	4:30 p.m., Wednesday, 8 June 2022
Closure of register of members:	Thursday, 9 June 2022 to Tuesday, 14 June 2022 (both days inclusive)
Record date:	Tuesday, 14 June 2022

In order to be eligible to attend and vote at the 2022 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 or 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.

Code provision C.6.1 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.

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 2021.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2021, the Company repurchased a total of 5,612,000 Shares on the Stock Exchange at an aggregate consideration of (excluding expenses) approximately HK\$8.97 million. Among those repurchased shares, 500,000 shares were cancelled during the year ended 31 December 2021 on 7 June 2021, and 5,112,000 Shares were not yet cancelled as at 31 December 2021. The issued share capital of the Company was reduced by the par value thereof. Details of the repurchases of Shares during the year ended 31 December 2021 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
September 2021	177,000	3.33	3.32	589.3
December 2021	4,935,000	1.45	1.01	6,004

Subsequent to the end of the reporting period and up to 23 March 2022, the Company has repurchased a total of 3,431,000 Shares on the Stock Exchange at an aggregate consideration of (excluding expenses) of approximately HK\$4.2 million (approximately RMB3.5 million equivalent). Such repurchased shares were not yet cancelled as at 23 March 2022.

Details of the repurchase of shares 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\$	
January 2022	3,431,000	1.30	1.11	4,222

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 30 June 2020 and 26 May 2021 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 year ended 31 December 2021 and up to the date of this announcement.

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. Lee Kwok Tung, Louis and Dr. To Kit Wa, 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 consolidated financial statements for the year ended 31 December 2021. This final results announcement of the Group for the year ended 31 December 2021 has been reviewed by the Audit Committee.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Company’s auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by the auditor on this announcement.

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.

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

Hong Kong, 23 March 2022

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 Dr. To Kit Wa as independent non-executive Directors.

* *For identification purpose only*