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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 2022**

The board of directors (the “**Board**”) of Fusen Pharmaceutical Company Limited (the “**Company**”) hereby announces the unaudited interim results of the Company and its subsidiaries for the six months ended 30 June 2022, together with the comparative figures for the corresponding period in 2021.

#### **FINANCIAL HIGHLIGHTS**

- Our revenue decreased by approximately 22.7% from approximately RMB214.2 million in the first half of 2021 to approximately RMB165.6 million in the first half of 2022.
- Our gross profit decreased by approximately 32.6% from approximately RMB118.2 million for the first half of 2021 to approximately RMB79.7 million for the first half of 2022.
- Our profit attributable to equity shareholders of the Company decreased by approximately 116.0% from approximately RMB43.9 million for the first half of 2021 to loss of approximately RMB7.0 million for the first half of 2022.
- The Board does not recommend the distribution of any interim dividend for the six months ended 30 June 2022 (corresponding period of 2021: RMB0.57 cents).

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

*For the six months ended 30 June 2022 — unaudited*

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

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2022</b>	<b>2021</b>
		<b>RMB'000</b>	<b>RMB'000</b>
<b>Revenue</b>	4	<b>165,611</b>	214,212
Cost of sales		<b>(85,878)</b>	(95,980)
<b>Gross profit</b>		<b>79,733</b>	118,232
Other net (loss)/income		<b>(57)</b>	11,059
Selling and distribution expenses		<b>(44,594)</b>	(50,914)
General and administrative expenses		<b>(27,904)</b>	(31,529)
<b>Profit from operations</b>		<b>7,178</b>	46,848
Finance income		<b>953</b>	1,212
Finance costs		<b>(10,884)</b>	(7,074)
Net finance costs		<b>(9,931)</b>	(5,862)
Share of (loss)/profit of a joint venture		<b>(1,462)</b>	11,721
Share of loss of an associate		<b>(3,098)</b>	(1,910)
<b>(Loss)/profit before taxation</b>		<b>(7,313)</b>	50,797
Income tax expenses	5	<b>236</b>	(6,988)
<b>(Loss)/profit for the period</b>		<b>(7,077)</b>	43,809
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(7,037)</b>	43,919
Non-controlling interests		<b>(40)</b>	(110)
<b>(Loss)/profit for the period</b>		<b>(7,077)</b>	43,809
<b>Other comprehensive income for the period (after tax)</b>			
<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		<b>1,862</b>	(555)
<b>Other comprehensive income for the period</b>		<b>1,862</b>	(555)
<b>Total comprehensive income for the period</b>		<b>(5,215)</b>	43,254
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(5,175)</b>	43,364
Non-controlling interests		<b>(40)</b>	(110)
<b>Total comprehensive (loss)/income for the period</b>		<b>(5,215)</b>	43,254
<b>(Loss)/earnings per share</b>			
Basic (RMB cents)	6(a)	<b>(1)</b>	6
Diluted (RMB cents)	6(b)	<b>(1)</b>	6

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022 — unaudited

(Expressed in RMB'000 unless otherwise indicated)

	<i>Note</i>	<b>30 June 2022 RMB'000</b>	31 December 2021 RMB'000
<b>Non-current assets</b>			
Investment property		<b>17,050</b>	17,605
Other property, plant and equipment		<b>278,679</b>	281,877
Right-of-use assets		<b>221,152</b>	224,157
Intangible assets		<b>583</b>	683
Interest in a joint venture		<b>58,575</b>	60,037
Interest in an associate		<b>136,009</b>	138,027
Deferred tax assets		<b>6,674</b>	5,629
Other assets		<b>2,099</b>	2,099
		<b>720,821</b>	730,114
<b>Current assets</b>			
Other financial assets		<b>3,351</b>	642
Inventories		<b>114,217</b>	121,845
Trade receivables	7	<b>152,882</b>	157,581
Prepayments and other receivables		<b>155,058</b>	148,091
Restricted bank deposit		<b>20,000</b>	–
Cash and cash equivalents		<b>52,627</b>	81,063
		<b>498,135</b>	509,222
<b>Current liabilities</b>			
Trade and bills payables	8	<b>120,804</b>	102,115
Lease liabilities		<b>2,084</b>	1,833
Contract liabilities		<b>6,794</b>	4,617
Accruals and other payables		<b>150,865</b>	219,069
Bank and other loans		<b>207,343</b>	160,915
Other financial liabilities		<b>–</b>	717
		<b>487,890</b>	489,266
<b>Net current assets</b>		<b>10,245</b>	19,956
<b>Total assets less current liabilities</b>		<b>731,066</b>	750,070

	<i>Note</i>	<b>30 June 2022 RMB'000</b>	31 December 2021 RMB'000
<b>Non-current liabilities</b>			
Deferred income		<b>10,525</b>	10,508
Lease liabilities		<b>1,392</b>	1,940
Bank and other loans		<b>74,000</b>	76,000
Deferred tax liabilities		<b>5,031</b>	4,678
		<u><b>90,948</b></u>	<u>93,126</u>
<b>NET ASSETS</b>		<u><b>640,118</b></u>	<u>656,944</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	9	<b>6,340</b>	6,479
Reserves		<b>635,043</b>	651,690
<b>Total equity attributable to equity shareholders of the Company</b>		<b>641,383</b>	658,169
<b>Non-controlling interests</b>		<b>(1,265)</b>	(1,225)
<b>TOTAL EQUITY</b>		<u><b>640,118</b></u>	<u>656,944</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 2022 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 29 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 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 2021 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

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 2022. The Group's turnover for the six months ended 30 June 2022 decreased by 22.7%, and the Group incurred a loss of RMB7,077,000 and recorded a net operating cash outflow of RMB46,345,000 for the six months ended 30 June 2022. As at 30 June 2022, net current assets of the Group was RMB10,245,000. Considering the current economic conditions, management has comprehensively considered (i) the Group's cash flow forecast for the 12 months ending 30 June 2023; (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 six months ended 30 June 2022 have been prepared on a going concern basis.

## 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 IAS 16, Property, plant and equipment: Proceeds before intended use*
- *Amendments to IAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

None of these amendments have had a material effect on how the Group's results and financial position for the current period 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	
	2022	2021
	RMB'000	RMB'000
Shuanghuanglian Oral Solutions	65,381	123,102
Shuanghuanglian Injections	32,771	23,082
Third party products	8,180	–
Others	59,279	68,028
	<u>165,611</u>	<u>214,212</u>

Revenue is recognised at point in time.

During the six months ended 30 June 2022, one of the Group's customers (2021: one customer) with whom transactions have exceeded 10% of the Group's revenue. Revenue from sales of pharmaceutical products to this customer amounted to RMB21,580,000 (2021: RMB28,232,000).

**(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.

**5 INCOME TAX EXPENSES**

Amounts recognised in profit or loss:

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Current tax — the PRC Enterprise Income Tax	<b>456</b>	4,840
Deferred tax	<b>(692)</b>	2,148
	<u><b>(236)</b></u>	<u>6,988</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% (2021: 16.5%) to the six months ended 30 June 2022. 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 2022 is 25% (2021: 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% (2021: 15%), which has been applied for each of the six months ended 30 June 2022 and 2021. The current certification of New and High Technology Enterprise held by Henan Fusen will expire 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.

## 6 (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB7,037,000 (six months ended 30 June 2021: profit of RMB43,919,000) and the weighted average of 758,986,000 ordinary shares (2021: 769,951,000) in issue during the reporting period, calculated as follows:

	Six months ended 30 June	
	2022	2021
	'000	'000
Issued ordinary shares at 1 January	769,934	774,012
Effect of purchase of own shares	<u>(10,948)</u>	<u>(4,061)</u>
Weighted average number of ordinary shares at 30 June	<u>758,986</u>	<u>769,951</u>

### (b) Diluted (loss)/earnings per share

The diluted loss per share for the six months ended 30 June 2022 has not taken into account the effect of the outstanding share options as its inclusion would have decreased the loss per share, hence anti-dilutive.

The calculation of diluted earnings per share for the six months ended 30 June 2021 is based on the profit attributable to ordinary equity shareholders of the Company of RMB43,919,000 and the weighted average number of 773,864,000 ordinary shares after adjusting the effects of dilutive potential ordinary shares, calculated as follows:

	Six months
	ended
	30 June
	2021
	'000
Weighted average number of ordinary shares at 30 June	769,951
Effect of deemed issue of shares under the Company's Share Option Scheme	<u>3,913</u>
Weighted average number of ordinary shares (diluted) at 30 June	<u>773,864</u>



## 7 TRADE RECEIVABLES

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Bills receivable*	82,235	101,145
Trade debtors	74,635	60,369
Less: allowance for credit loss	(3,988)	(3,933)
	<u>70,647</u>	<u>56,436</u>
	<u>152,882</u>	<u>157,581</u>

\* At 30 June 2022, the Group's bills receivable of RMB37,537,000 and RMB27,336,000 (31 December 2021: RMB41,550,000 and RMB38,460,000) were endorsed to suppliers and discounted to banks, respectively. As the Group has not transferred the substantial risks and rewards relating to these bills, the Group's management determined not to de-recognise 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 2022 RMB'000	At 31 December 2021 RMB'000
Current to 3 months	33,364	42,815
3 to 6 months	33,578	5,522
6 to 12 months	2,760	7,457
Over 12 months	945	642
	<u>70,647</u>	<u>56,436</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 <b>30 June</b> <b>2022</b> <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Current to 3 months	<b>62,329</b>	42,570
3 to 6 months	<b>13,134</b>	24,023
6 to 12 months	<b>25,107</b>	16,022
Over 12 months	<b>20,234</b>	19,500
	<b><u>120,804</u></b>	<u>102,115</u>

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

## 9 SHARE CAPITAL

	2022		2021	
	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	<b><u>2,000,000,000</u></b>	<b><u>16,354</u></b>	<u>2,000,000,000</u>	<u>16,354</u>
Ordinary shares, issued and fully paid:				
At 1 January	<b>769,934,000</b>	<b>6,479</b>	774,012,000	6,513
Cancellation of treasury shares	<b><u>(16,495,000)</u></b>	<b><u>(139)</u></b>	<u>(4,078,000)</u>	<u>(34)</u>
At 30 June	<b><u>753,439,000</u></b>	<b><u>6,340</u></b>	<u>769,934,000</u>	<u>6,479</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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Nil interim dividend declared after the interim period (2021: RMB0.57 cents (equivalent to HKD0.68 cents) per share)	—	4,389
	<u>          </u>	<u>          </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

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB0.34 cents (equivalent to HKD0.42 cents) per ordinary share (2021: RMB0.46 cents (equivalent to HKD0.54 cents) per ordinary share)	2,618	3,560
	<u>          </u>	<u>          </u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Future Prospects

In the first half of 2022, affected by the COVID-19 pandemic, various provinces in Mainland China adopted different levels of pandemic prevention measures, including restricting the movement of people, restricting the sales of drugs for cold and fever in pharmacies and requiring real-name registration of customers. Henan Province, the Company's main sales region, was also affected by the COVID-19 pandemic and the above measures, and product sales were greatly affected. Customer visits of business personnel were restricted to a certain extent, resulting in a decline in revenue in the first half of the year. The revenue and gross profit for the first half of 2022 were RMB165.6 million and RMB79.7 million respectively, representing a decrease of approximately 22.7% and 32.6% respectively as compared to the corresponding period in 2021. The decrease in revenue was mainly attributable to the decrease in sales volume in the product named Shuanghuanglian Oral Solutions as a result of the implementation of control measures to combat the COVID-19 outbreak in the PRC in the first half of 2022 which have restricted the sales of antitussive and cold medicine.

Weihai Rensheng Pharmaceutical Group Company Limited\* (威海人生藥業集團股份有限公司) (“**Weihai Rensheng**”), an associate of the Company, was also affected by the epidemic, which affected the sales of the Company to a certain extent. The core product of Jiangxi Yongfeng Kangde Pharmaceutical Company Limited\* (江西永豐康德醫藥有限公司) (a joint venture of the Group) (“**Jiangxi Kangde**”), Kefadim, as affected by the national centralised procurement policy, recorded a decrease in revenue. However, with the passing of the consistency evaluation of Kefadim in July, the Company expects that sales volume will pick up in the second half of the year.

Although the performance declined in the first half of the year due to the impact of the pandemic, the Company believes that the basic demand for products has not changed. With the alleviation of the pandemic and more scientific and precise prevention and control measures, the sales volume is likely to return to a normal level. Meanwhile, the Company is also continuously enriching its product structure, seeking market opportunities, and resuming the production of its existing products to the market. Nikadiping injection has resumed production and won the bid for centralised procurement in 14 provincial alliances, which led to a gradual increase in sales volume; Compound Bupropylene and Antailin tablets have passed the process verification and are expected to obtain production approval and commence sales in the second half of the year.

In terms of new product research and development and product introduction, a wholly-owned subsidiary, Jiaheng (Zhuhai Hengqin) Pharmaceutical Technology Company Limited\* (嘉亨(珠海橫琴)醫藥科技有限公司) (“**Jiaheng Pharmaceutical**”), obtained the drug production licence in the first half of the year and became the Marketing Authorization Holder (“MAH”) holder. As the Company’s research and development platform, Jiaheng Pharmaceutical continues to seek for products with market potential for project research and development. Currently, there are a total of 18 research and development projects in progress, including four traditional Chinese medicine projects, three Class 3 chemical drugs, five Class 4 chemical drugs and one chemical generic drug consistency evaluation project. Meanwhile, in order to ensure the raw material supply and cost advantages of chemical drug products, the Company has also established five chemical API projects for research and development. In April this year, one consistency evaluation project for chemical and generic drugs has completed review and approval, and obtained the Notice of Approval for Supplementary Drug Application. Fusen (Shenzhen) Biomedical R&D Co., Ltd\* (福森(深圳)生物醫藥研發有限公司), a wholly-owned subsidiary of the Company, has obtained the qualification for the operation of Class III medical devices in 2021 and obtained the commercialization rights of KARISMA products from TAUMED, an Italian company, in the Greater China region in the first half of this year. It is expected that the import registration of this product will commence in the second half of the year. The Company expects that the research and development expenses will increase significantly this year as compared with previous years. However, we believe that the investment in such research and development expenses is necessary and will bring more new products to the Company in the next three to five years, bringing new growth points for the Company’s medium and long-term development. The operation of Weihai Rensheng, an associate of the Company, is gradually on the right track. With the addition of a new sales team, it will gradually expand the market and increase sales volume.

Kefadim, the core product of Jiangxi Kangde, a joint venture of the Group, has passed the consistency evaluation in July, and it is expected that the sales volume will gradually pick up. Meanwhile, the product of Atomoxetine capsule for attention deficit and hyperactivity disorder for children and adolescents has been approved for marketing in June, which will gradually contribute to the sales volume. The Company will continue to identify and introduce new products with market potential.

The ongoing COVID-19 pandemic has brought many challenges to the Company’s operations. The Company will actively respond and continue to enrich its product portfolio and expand into new markets.

\* *For identification purposes only*

## Financial Review

### Sales performance

	Unaudited				
	Six months ended 30 June				
	2022		2021		Changes %
Revenue RMB'000	% of total	Revenue RMB'000	% of total		
Shuanghuanglian Oral Solutions (10 ml)	44,600	26.9%	89,523	41.8%	(50.2%)
Shuanghuanglian Oral Solutions (20 ml)	20,781	12.6%	33,579	15.7%	(38.1%)
Subtotal	65,381	39.5%	123,102	57.5%	(46.9%)
Shuanghuanglian Injections	32,771	19.8%	23,082	10.8%	42.0%
Compound Ferrous Sulfate Granules	8,270	5.0%	10,749	5.0%	(23.1%)
Flunarizine Hydrochloride Capsules	11,608	7.0%	10,571	4.9%	9.8%
Third-party products	8,180	4.9%	–	–	N/A
Others products	39,401	23.8%	46,708	21.8%	(15.6%)
Subtotal	100,230	60.5%	91,110	42.5%	10%
Total	165,611	100%	214,212	100%	(22.7%)

Our revenue decreased by approximately 22.7% from approximately RMB214.2 million in the first half of 2021 to approximately RMB165.6 million in the first half of 2022, primarily due to the decrease in sales volume.

Among our product categories, revenue from sales of Shuanghuanglian Oral Solutions decreased by approximately 46.9% from approximately RMB123.1 million in the first half of 2021 to approximately RMB65.4 million in the first half of 2022, which was mainly attributable to the implementation of control measures to combat the COVID-19 outbreak in the PRC. Revenue from sales of Shuanghuanglian Injections increased by approximately 42.0% from approximately RMB23.1 million in the first half of 2021 to approximately RMB32.8 million in the first half of 2022, which was mainly attributable to the Company's temporary sales promotion by offering sales discount to speed up the product turnover. Our revenue from other products decreased by approximately 15.6% from approximately RMB46.7 million in the first half of 2021 to approximately RMB39.4 million in the first half of 2022, which was mainly attributable to the fluctuating demand.

### ***Gross profit and margin***

Our gross profit decreased by approximately 32.6% from approximately RMB118.2 million for the first half year of 2021 to approximately RMB79.7 million for the first half year of 2022. The decrease in gross profit is in line with the approximately 22.7% decrease in total revenue for the first half year of 2022. Meanwhile, gross profit margin slightly decreased by 7.1% to approximately 48.1% for the first half year of 2022 (approximately 55.2% for the first half of 2021).

### ***Other net (loss)/income***

Our other net loss primarily consists of government grants, net realised and unrealised gains on derivative financial assets, net material and scrap sales income and others. The decrease is mainly due to the decrease 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 2021 and 2022, our selling and distribution expenses amounted to approximately RMB50.9 million and RMB44.6 million respectively, representing approximately 23.8% and 26.9% of our revenue for the respective periods. The decrease in selling and distribution expenses is mainly due that some of marketing activities were suspend or cancelled during the period of the implementation of control measures to combat the COVID-19 outbreak in the PRC in the first half of 2022. 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 RMB3.6 million from approximately RMB31.5 million for the first half year of 2021 to approximately RMB27.9 million for the first half year of 2022. In the first half of 2022, the Company reverses approximately RMB5.5 million of bad debts. Meanwhile, the Company increased its investment in research and development (R&D), including R&D staff labor and project expenses, which increased by approximately RMB3.9 million in total. The above two items contribute a slight decrease in general and administrative expenses.

### ***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 RMB5.9 million in the first half year of 2021 to approximately RMB9.9 million in the first half year of 2022, mainly attributable to the increase in net foreign exchange loss and interest on bank loans.

### **Share of (loss)/profit of a joint venture**

Share of (loss)/profit of a joint venture representing the Group's interests decreased by approximately RMB13.2 million from approximately RMB11.7 million profit for the six months ended 30 June 2021 to approximately RMB1.5 million loss for the six months ended 30 June 2022. It was affected by a centralized procurement policy in the first half of 2022. The Group interests is due from Jiangxi Yongfeng Kangde, whose 35.8% shares are owned by the Group.

### **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%. Income tax expenses decreased from approximately RMB7.0 million in the first half year of 2021 to approximately RMB0.2 million negative amount. The decrease is mainly attributable to the operation loss in the first half year of 2022.

### **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 2022, the total capital expenditure was approximately RMB19.5 million (the first half year of 2021: approximately RMB68.0 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 2022, the Group's short-term borrowings and long-term borrowings amounted to approximately RMB281.3 million (31 December 2021: approximately RMB236.9 million).

	<b>As at 30 June 2022 RMB'000</b>	As at 31 December 2021 RMB'000
Short-term borrowings	<b>207,343</b>	160,915
Long-term borrowings	<b>74,000</b>	76,000
Total	<b><u>281,343</u></b>	<u>236,915</u>

## Capital Structure

The Group's capital structure consists of equity interest attributable to shareholders and liabilities. As at 30 June 2022, the Group's equity interest attributable to shareholders amounted to approximately RMB641.4 million (31 December 2021: approximately RMB658.2 million) in aggregate and total liabilities amounted to approximately RMB578.8 million (31 December 2021: approximately RMB582.4 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 2022, the Group had net current assets of approximately RMB10.2 million (31 December 2021: net current assets of approximately RMB20.0 million), which included cash and cash equivalents of approximately RMB52.6 million (31 December 2021: approximately RMB81.1 million) and the short-term bank and other loans amounting to approximately RMB207.3 million (31 December 2021: approximately RMB160.9 million).

The Directors have confirmed that the Group will have sufficient financial resources to meet its financial obligations as they all due in the foreseeable future.

## Gearing Ratio

As at 30 June 2022, the gearing ratio of the Group, which is calculated by dividing total bank and other loans by total equity, increased to 44.0% from 36.1% as at 31 December 2021. The increase was primarily due to the increase 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 2022, the Group had a total of 1,143 employees (31 December 2021: 1,243 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 2022, the total staff cost (including Director's emoluments, contributions to defined contribution retirement schemes, bonus and other benefits) amounted to approximately RMB38.3 million (six months ended 30 June 2021: RMB43.8 million).

## Commitment

Capital commitments of the Group outstanding as at 30 June 2022 and 31 December 2021 are as follows:

	<b>30 June 2022 RMB'000</b>	31 December 2021 RMB'000
Contracted for	<u>540</u>	<u>1,819</u>

## **Contingent Liabilities**

The Group had no material contingent liabilities as at 30 June 2022.

## **Pledge of Assets**

As at 30 June 2022, 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 RMB118.4 million as of 30 June 2022 (31 December 2021: approximately RMB87.1 million).

## **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 2022 to 30 June 2022, save for code provision C.6.1 of the Code, the Company has complied with all applicable code provisions set out in the Code.

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.

## **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 D.3 of the Code. During the six months ended 30 June 2022, 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 2022. It has also reviewed the unaudited condensed interim financial report for the six months ended 30 June 2022 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 2022 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 2022.

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

During the six months ended 30 June 2022, the Company repurchased a total of 11,612,000 Shares on the Stock Exchange at an aggregate consideration of (excluding expenses) approximately HK\$12.1 million. A total of 16,495,000 repurchased shares were cancelled during the six months ended 30 June 2022 on 8 June 2022. The issued share capital of the Company was reduced by the par value thereof. Details of the repurchases of shares were as follows:

<b>Month of repurchase</b>	<b>Number of Shares repurchased</b>	<b>Price per Share</b>		<b>Aggregate consideration (excluding expenses) HK\$'000</b>
		<b>Highest</b> <i>HK\$</i>	<b>Lowest</b> <i>HK\$</i>	
January, March, April, May and June 2022	11,612,000	1.30	0.90	12,080

The repurchases of shares were made by the Directors, pursuant to the general mandates granted by the Shareholders at the annual general meetings held on 26 May 2021 and 31 May 2022 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 2022 and up to the date of this announcement.

## **INTERIM DIVIDEND**

The directors of the Company do not recommend the payment of a dividend in respect of the six months ended 30 June 2022 (six months ended 30 June 2021: RMB0.57 cents).

## **SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD**

Pursuant to the restricted share unit scheme of the Company approved and adopted by the Board on 8 November 2021 (the “**RSU Scheme**”), on 8 July 2022, the Board has approved to grant a total of 5,000,000 restricted share units (“**RSU(s)**”) in aggregate to two grantees (the “**Grantees**”), both of which are business development staff of the Group and are third parties independent of and not connected with the Company, its subsidiaries and its connected persons.

On 8 July 2022, the Board has resolved to allot and issue 5,000,000 shares of the Company (the “**New Shares**”) under the general mandate granted to the Directors at the annual general meeting of the Company held on 31 May 2022. The New Shares will be held on trust by Global Talent Alliance Limited (a wholly-owned subsidiary of the trustee appointed by the Board to assist in the administration of the RSU Scheme, the “**RSU Nominee**”) for the Grantees until the relevant RSUs have been exercised, upon which the New Shares shall be transferred to the Grantees. The New Shares were issued to the RSU Nominee on 29 July 2022.

For further details of the RSU Scheme, the grant of the RSUs and the issue of New Shares, please refer to the announcements of the Company dated 8 November 2021, 8 July 2022 and 25 July 2022, respectively.

Save as disclosed above, as at the date of this announcement, there are no other important events affecting the Group which has occurred since 30 June 2022.

## **PUBLICATION OF INTERIM REPORT**

The interim report of the Company for the six months ended 30 June 2022 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](http://www.hkexnews.hk) and the website of the Company at [www.fusenyy.com](http://www.fusenyy.com) by September 2022.

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

Hong Kong, 29 August 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 as executive Directors, and Mr. Sze Wing Chun, Mr. Lee Kwok Tung Louis and Dr. To Kit Wa as independent non-executive Directors.*