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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)**

### **DISCLOSEABLE TRANSACTION DEEMED DISPOSAL OF INTEREST IN JIANGXI KANGDE**

#### **CAPITAL INJECTION AGREEMENT**

The Board is pleased to announce that, on 24 December 2019 (after trading hours), Jiangxi Kangde and Jiangxi Kangde's Shareholders entered into the Capital Injection Agreement with the Investor, pursuant to which the Investor agreed to inject capital of RMB50,180,415 (equivalent to approximately HK\$55,756,017) to Jiangxi Kangde for the subscription of 29.9% of the equity interest in Jiangxi Kangde, of which RMB4,265,335 will be contributed as additional registered capital of Jiangxi Kangde and the balance of RMB45,915,080 will be credited to the capital reserves of Jiangxi Kangde. As a result of the Capital Injection, the Investor and Jiangxi Kangde's Shareholders, which comprise Cloud Dollar (a wholly-owned subsidiary of the Company), Mr. Fei and Mr. Yu, will hold approximately 29.9%, 35.8%, 21.0% and 13.3% of the equity interest in Jiangxi Kangde, respectively, whereby Jiangxi Kangde will cease to be a subsidiary of the Company for the purpose of the Listing Rules.

#### **LISTING RULES IMPLICATIONS**

As a result of the Capital Injection, Cloud Dollar's equity interest in Jiangxi Kangde will be diluted from 51% to approximately 35.8%. As such, Jiangxi Kangde will cease to be a subsidiary of the Company for the purpose of the Listing Rules and the Capital Injection contemplated under the Capital Injection Agreement constitutes a deemed disposal of the Group's equity interest in Jiangxi Kangde pursuant to Rule 14.29 of the Listing Rules.

As the applicable percentage ratios calculated under Chapter 14 of the Listing Rules exceed 5% but are less than 25%, the Capital Injection Agreement and the transactions contemplated thereunder constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules. As such, the Company is subject to the notification and announcement requirements but exempt from the circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

The Board is pleased to announce that, on 24 December 2019 (after trading hours), Jiangxi Kangde and Jiangxi Kangde's Shareholders entered into the Capital Injection Agreement with the Investor, pursuant to which the Investor agreed to inject capital of RMB50,180,415 (equivalent to approximately HK\$55,756,017) to Jiangxi Kangde for the subscription of 29.9% of the equity interest in Jiangxi Kangde, of which RMB4,265,335 will be contributed as additional registered capital of Jiangxi Kangde and the balance of RMB45,915,080 will be credited to the capital reserves of Jiangxi Kangde. As a result of the Capital Injection, the Investor and Jiangxi Kangde's Shareholders, which comprise Cloud Dollar (a wholly-owned subsidiary of the Company), Mr. Fei and Mr. Yu, will hold approximately 29.9%, 35.8%, 21.0% and 13.3% of the equity interest in Jiangxi Kangde, respectively, whereby Jiangxi Kangde will cease to be a subsidiary of the Company for the purpose of the Listing Rules.

## **THE CAPITAL INJECTION AGREEMENT**

The principal terms of the Capital Injection Agreement are set out as follows:

**Date:** 24 December 2019

**Parties:**

- (a) Investor;
- (b) Jiangxi Kangde's Shareholders; and
- (c) Jiangxi Kangde

**Capital Injection:** The Investor shall inject capital to Jiangxi Kangde and subscribe 29.9% of the equity interest in Jiangxi Kangde in an aggregate amount of RMB50,180,415 (equivalent to approximately HK\$55,756,017), of which RMB4,265,335 will be contributed as additional registered capital of Jiangxi Kangde and the balance of RMB45,915,080 will be credited to the capital reserves of Jiangxi Kangde.

As at the date of this announcement, the equity interests of Jiangxi Kangde are owned as to 51%, 30% and 19% by Cloud Dollar (a wholly-owned subsidiary of the Company), Mr. Fei and Mr. Yu, respectively. As at the date of this announcement, Jiangxi Kangde is an indirect non-wholly owned subsidiary of the Company for the purpose of the Listing Rules. For further details, please refer to the section headed "Information on Jiangxi Kangde" of this announcement.

As a result of the Capital Injection, the Investor and Jiangxi Kangde's Shareholders, which comprise Cloud Dollar (a wholly-owned subsidiary of the Company), Mr. Fei and Mr. Yu, will hold approximately 29.9%, 35.8%, 21.0% and 13.3% of the equity interest in Jiangxi Kangde, respectively, whereby Jiangxi Kangde will cease to be a subsidiary of the Company for the purpose of the Listing Rules.

The amount of the Capital Injection was determined after arm's length negotiations between the Investor, Jiangxi Kangde's Shareholders and Jiangxi Kangde principally with reference to the net asset value, the trademarks rights and production technologies in relation to the medicine named Kefadim of Jiangxi Kangde.

**Completion and settlement of the Capital Injection Amount:**

Payment of the Capital Injection Amount shall be settled and completed within six months after signing of the Capital Injection Agreement.

**Use of proceeds from the Capital Injection:**

The proceeds arising from the Capital Injection will be principally used in the operations and development of Jiangxi Kangde, including but not limited to the research and development of over-the-counter medicine products.

**Board composition:**

The Investor shall be entitled to nominate one additional director to the board of directors of Jiangxi Kangde.

## **FINANCIAL EFFECT TO THE GROUP**

As a result of the Capital Injection, Cloud Dollar's equity interest in Jiangxi Kangde will be diluted from 51% to approximately 35.8%, whereby Jiangxi Kangde will cease to be a subsidiary of the Company for the purpose of the Listing Rules. However, given that as at the date of this announcement, the Group's equity interests in Jiangxi Kangde are accounted as a joint venture/an associated company in the consolidated financial statement of the Group using equity method, it is expected that Jiangxi Kangde will remain as a joint venture/an associated company of the Company according to the relevant accounting standard notwithstanding the Capital Injection. Therefore, it is expected that the Group will not record any significant gain or loss as a result of the Capital Injection.

## **INFORMATION ON JIANGXI KANGDE**

On 12 July 2019, Cloud Dollar (a wholly-owned subsidiary of the Company) entered into the Acquisition Agreement to acquire 51% of the equity interest in Jiangxi Kangde from Hezeshi Mudanqu Huahan Network Information Technology Center\* (荷澤市牡丹區華瀚網絡信息技術中心), to participate in the manufacturing and the sale of a medicine named Kefadim (chemical name: Ceftazidime for injection) to expand the Group's pharmaceutical products business and diversify its source of income.

Jiangxi Kangde is a company incorporated in the PRC with limited liability. Jiangxi Kangde is principally engaged in the importing and exporting of Chinese medicinal materials, Chinese medicine decoction pieces, Chinese patent medicines, chemical raw medicines, medicinal excipients, antibiotic raw medicines, biochemical drugs and relevant techniques. Jiangxi Kangde currently imports and sells Kefadim to the PRC market.

As at the date of this announcement, the equity interests of Jiangxi Kangde are owned as to 51% by Cloud Dollar (a wholly-owned subsidiary of the Company), 30% by Mr. Fei and 19% by Mr. Yu. As at the date of this announcement, Jiangxi Kangde is regarded as a subsidiary undertaking of the Company as defined under schedule 1 to the Companies Ordinance, while the Group's equity interests in Jiangxi Kangde are accounted as a joint venture/an associated company in the consolidated financial statement of the Group using equity method.

Although Jianxi Kangde is accounted as a joint venture/an associated company of the Group according to the applicable International Financial Reporting Standards, under Rule 1.01 of the Listing Rules, the definition of a subsidiary includes a “subsidiary undertaking” as defined in the Companies Ordinance. According to the Companies Ordinance, a body corporate is presumed to be a “subsidiary undertaking” of another body corporate if, among others, that other body corporate holds a majority of the voting rights in that undertaking. The Board considered that as the equity interests of Jiangxi Kangde are owned as to 51% by Cloud Dollar, an indirect wholly-owned subsidiary of the Company, even though the financial statements of Jiangxi Kangde are not consolidated into the consolidated financial statements of the Group, Jiangxi Kangde is considered as a “subsidiary” of the Company under Rule 1.01 of the Listing Rules.

As a result of the Capital Injection, Cloud Dollar's equity interest in Jiangxi Kangde will be diluted from 51% to approximately 35.8%, whereby Jiangxi Kangde will cease to be a subsidiary of the Company for the purpose of the Listing Rules.

Set out below is the shareholding structure of Jiangxi Kangde before and after the Capital Injection:

	<b>Before the Capital Injection</b>	<b>After the Capital Injection</b>
Total registered capital	RMB10,000,000	RMB14,265,335
<b>Shareholders:</b>	<b>Percentage of Jiangxi Kangde's equity interest held</b>	<b>Approximate percentage of Jiangxi Kangde's equity interest held</b>
Cloud Dollar	51%	35.8%
Mr. Fei	30%	21.0%
Mr. Yu	19%	13.3%
Investor	nil	29.9%

## FINANCIAL INFORMATION ON JIANGXI KANGDE

Jiangxi Kangde was incorporated in 2017, but only commenced operation in 2018. The financial information of Jiangxi Kangde for the financial years ended 31 December 2017 and 2018 based on its unaudited consolidated management accounts (prepared in accordance with the PRC Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC) are as follows:

	<b>Year ended 31 December 2017 RMB'000</b>	<b>Year ended 31 December 2018 RMB'000</b>
Turnover	—	80,945
Profit/(loss) before taxation	(36)	1,099
Net profit/(loss) after taxation	(36)	824
	<b>As at 31 December 2017 RMB'000</b>	<b>As at 31 December 2018 RMB'000</b>
Non-current assets	999	1,674
Current assets	1,724	53,901
Current liabilities	2,759	50,996
Net current assets/(liabilities)	<u>(1,035)</u>	<u>2,905</u>
Total assets	<u>2,723</u>	<u>55,575</u>
Net assets/(liabilities)	<u>(36)</u>	<u>4,579</u>

## INFORMATION ON THE GROUP AND CLOUD DOLLAR

The Company is an investment holding company incorporated in the Cayman Islands with limited liability. The Group is principally engaged in manufacturing and sale of pharmaceutical products, including but not limited to Shuanghuanglian-based cold medicine. In addition to the offering of core medicine products, the Group also engaged in research and development on, among others, its products' quality standard and stability, common chronic diseases and other proprietary Chinese medicine products.

Cloud Dollar is a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company. Cloud Dollar is an investment holding company.

## **INFORMATION ON MR. FEI AND MR. YU**

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) Mr. Fei Jiuhua\* (費久華) is a PRC citizen and a businessman who holds a 30% equity interest in Jiangxi Kangde as at the date of this announcement; and (ii) Mr. Yu Guang\* (于光) is a PRC citizen and a businessman who holds 19% equity interest in Jiangxi Kangde as at the date of this announcement.

## **INFORMATION ON THE INVESTOR**

Hubei Zhongbang Hengtai Pharmaceutical Technology Company Limited\* (湖北眾邦恒泰醫藥科技有限公司) is a company established in the PRC on 13 December 2019 and is principally engaged in the technology consultation and development of medicine products.

As at the date of this announcement, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the equity interests of the Investor are owned as to 63% by Mr. Chen Lian, 12% by Ms. Wu Wenjuan and 25% by Mr. Xu Jing. Mr. Chen Lian, the executive director, general manager and legal representative of the Investor, has over 10 years of experience in the pharmaceutical industry. Ms. Wu Wenjuan, the supervisor of the Investor, has over 10 years of experience in the pharmaceutical industry.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Investor and its ultimate beneficial owner(s) are Independent Third Parties.

## **REASONS FOR AND BENEFITS OF ENTERING INTO THE CAPITAL INJECTION**

Jiangxi Kangde is expected to have continuous business growth where new working capital could facilitate such growth. The Directors consider that the entering into of the Capital Injection Agreement represents an opportunity to enhance the working capital and broaden the capital base of Jiangxi Kangde and provide business synergies for the Group's future development. The Board is of the view that Jiangxi Kangde can leverage on the experience and expertise of the Investor to develop and promote new over-the-counter medicine products in the PRC market. The Directors consider that this provides the Group with an opportunity to expand its existing market presence to the competitive market of over-the-counter medicine products. The proceeds arising from the Capital Injection will be principally used in the operations and development of Jiangxi Kangde, including but not limited to the research and development of over-the-counter medicine products.

The Directors (including the independent non-executive Directors) are of the view that the Capital Injection is in the interests of the Company and the terms of the Capital Injection Agreement are fair and reasonable and on normal commercial terms and in the interests of the Shareholders as a whole.

## LISTING RULES IMPLICATIONS

As a result of the Capital Injection, Cloud Dollar's equity interest in Jiangxi Kangde will be diluted from 51% to approximately 35.8%. As such, Jiangxi Kangde will cease to be a subsidiary of the Company for the purpose of the Listing Rules and the Capital Injection contemplated under the Capital Injection Agreement constitutes a deemed disposal of the Group's equity interest in Jiangxi Kangde pursuant to Rule 14.29 of the Listing Rules.

As the applicable percentage ratios calculated under Chapter 14 of the Listing Rules exceed 5% but are less than 25%, the Capital Injection Agreement and the transactions contemplated thereunder constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules. As such, the Company is subject to the notification and announcement requirements but exempt from the circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

## DEFINITIONS

Unless otherwise defined, the following expressions in this announcement shall have the following meanings:

“Acquisition”	the acquisition of 51% equity interest in Jiangxi Kangde by Cloud Dollar
“Acquisition Agreement”	the agreement dated 12 July 2019 entered into between, among others, Jiangxi Kangde's Shareholders and Jiangxi Kangde in relation to, among other things, the Acquisition
“Board”	the board of Directors
“Capital Injection”	the injection of the Capital Injection Amount into Jiangxi Kangde by the Investor for the subscription of 29.9% equity interest in Jiangxi Kangde
“Capital Injection Agreement”	the agreement dated 24 December 2019 entered into between Jiangxi Kangde, Jiangxi Kangde's Shareholders and the Investor in relation to the Capital Injection
“Capital Injection Amount”	the amount of capital to be injected into Jiangxi Kangde by the Investor, i.e. RMB50,180,415 (equivalent to approximately HK\$55,756,017) (of which RMB4,265,335 will be contributed as additional registered capital of Jiangxi Kangde and the balance of RMB45,915,080 will be credited to the capital reserves of Jiangxi Kangde) for the purpose of the Capital Injection
“Cloud Dollar”	Cloud Dollar Investments Limited (衡盛投資有限公司), a company incorporated in Hong Kong with limited liability on 1 November 2012 and an indirect wholly-owned subsidiary of the Company



“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Company”	Fusen Pharmaceutical Company Limited (福森藥業有限公司), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1652)
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons and are not connected persons of the Company
“Investor”	Hubei Zhongbang Hengtai Pharmaceutical Technology Company Limited* (湖北眾邦恒泰醫藥科技有限公司), details of which are set out in the section headed “Information on the Investor” in this announcement
“Jiangxi Kangde”	Jiangxi Yongfeng Kangde Pharmaceutical Company Limited* (江西永豐康德醫藥有限公司), a company incorporated in the PRC with limited liability, details of which are set out in the section headed “Information on Jiangxi Kangde” in this announcement
“Jiangxi Kangde’s Shareholders”	collectively, Cloud Dollar, Mr. Fei and Mr. Yu
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Fei”	Fei Jiuhua* (費久華), a shareholder holding 30% equity interest in Jiangxi Kangde as at the date of this announcement
“Mr. Yu”	Yu Guang* (于光), a shareholder holding 19% equity interest in Jiangxi Kangde as at the date of this announcement
“PRC”	the People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan



“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

\* *For identification purpose only*

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

Hong Kong, 24 December 2019

*This announcement contains translation between RMB and HK\$ at RMB0.90 to HK\$1.00. The translation shall not be taken as representation that the RMB could actually be converted into HK\$ at that rate, or at all.*

*As at the date of this announcement, the Board comprises Mr. Cao Changcheng (Chairman), Mr. Hou Taisheng, Mr. Chi Yongsheng, Ms. Meng Qingfen and Mr. Cao Zhiming (formerly known as Mr. Cao Dudu) as executive Directors, and Mr. Sze Wing Chun, Mr. Lee Kwok Tung Louis and Mr. Ho Ka Chun as independent non-executive Directors.*