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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 2023

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 2023, together with the comparative figures for the corresponding period in 2022.

FINANCIAL HIGHLIGHTS

- Our revenue increased by approximately 103.1% from approximately RMB165.6 million in the first half of 2022 to approximately RMB336.4 million in the first half of 2023.
- Our gross profit increased by approximately 124.7% from approximately RMB79.7 million for the first half of 2022 to approximately RMB179.1 million for the first half of 2023.
- Profit attributable to equity shareholders of the Company was approximately RMB16.5 million for the first half of 2023 as compared to loss of approximately RMB7.0 million for the first half of 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023 — unaudited

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

	<i>Note</i>	Six months ended 30 June	
		2023	2022
		RMB'000	RMB'000
Revenue	4	336,437	165,611
Cost of sales		<u>(157,319)</u>	<u>(85,878)</u>
Gross profit		179,118	79,733
Other net loss		(1,443)	(57)
Selling and distribution expenses		(79,091)	(44,594)
General and administrative expenses		(59,783)	(27,904)
Profit from operations		38,801	7,178
Finance income		752	953
Finance costs		(2,993)	(10,884)
Net finance costs		(2,241)	(9,931)
Share of loss of a joint venture		(12,805)	(1,462)
Share of loss of an associate		(859)	(3,098)
Profit/(loss) before taxation		22,896	(7,313)
Income tax expenses	5	(6,449)	236
Profit/(loss) for the period		16,447	(7,077)
Other comprehensive income for the period (after tax)			
<i>Item that may be reclassified subsequently to profit or loss</i>			
— Exchange differences on translation of financial statements of the Company and overseas subsidiaries		(87)	1,862
Other comprehensive income for the period		(87)	1,862
Total comprehensive income for the period		16,360	(5,215)
Profit/(loss) for the period attributable to:			
Equity shareholders of the Company		16,456	(7,037)
Non-controlling interests		(9)	(40)
		16,447	(7,077)
Total comprehensive income for the period attributable to:			
Equity shareholders of the Company		16,369	(5,175)
Non-controlling interests		(9)	(40)
		16,360	(5,215)
Earnings /(loss) per share			
Basic (RMB cents)	6(a)	2	(1)
Diluted (RMB cents)	6(b)	2	(1)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023 — unaudited

(Expressed in RMB'000 unless otherwise indicated)

	<i>Note</i>	30 June 2023 RMB'000	31 December 2022 RMB'000
Non-current assets			
Investment property		15,942	16,497
Other property, plant and equipment		346,948	312,108
Right-of-use assets		215,551	217,637
Intangible assets		383	483
Interest in a joint venture		35,699	48,433
Interest in an associate		129,568	129,876
Financial assets measured at fair value through profit or loss (“FVPL”)		11,325	–
Deferred tax assets		6,933	5,079
Other assets		36,222	6,099
		<u>798,571</u>	<u>736,212</u>
Current assets			
Other financial assets		2,281	4,595
Inventories		96,897	110,649
Trade receivables	7	214,727	247,189
Prepayments and other receivables		121,626	103,366
Restricted bank deposit		–	20,151
Cash and cash equivalents		78,299	128,106
		<u>513,830</u>	<u>614,056</u>
Current liabilities			
Trade and bills payables	8	105,841	163,613
Lease liabilities		1,790	2,107
Contract liabilities		11,675	67,550
Accruals and other payables		259,344	255,823
Bank and other loans		290,513	225,842
Current taxation		7,260	7,147
		<u>676,423</u>	<u>722,082</u>
Net current liabilities		<u>(162,593)</u>	<u>(108,026)</u>
Total assets less current liabilities		<u>635,978</u>	<u>628,186</u>

	<i>Note</i>	30 June 2023 RMB'000	31 December 2022 RMB'000
Non-current liabilities			
Deferred income		10,777	11,323
Lease liabilities		1,201	432
Deferred tax liabilities		3,045	3,538
		<u>15,023</u>	<u>15,293</u>
NET ASSETS		<u>620,955</u>	<u>612,893</u>
CAPITAL AND RESERVES			
Share capital	9	6,383	6,383
Reserves		615,855	607,784
Total equity attributable to equity shareholders of the Company		622,238	614,167
Non-controlling interests		(1,283)	(1,274)
TOTAL EQUITY		<u>620,955</u>	<u>612,893</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.

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 2023 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 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 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 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

Going concern assumption

As at 30 June 2023, net current liabilities of the Group was RMB162,593,000, and the operating cash outflow for the six months period ended 30 June 2023 amounted to RMB46,348,000. Considering the current economic conditions, management has comprehensively considered (i) the Group’s cash flow forecast for the 12 months ending 30 June 2024; (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 for at least 12 months from the end of the reporting period. As a result, the interim consolidated financial statements of the Group for the six months ended 30 June 2023 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:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform — Pillar Two model rules*

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	
	2023	2022
	RMB'000	RMB'000
Manufacturing products		
Shuanghuanglian Oral Solutions	165,916	65,381
Shuanghuanglian Injections	51,201	32,771
Other Products	101,690	59,279
Subtotal	318,807	157,431
Third-party products	17,630	8,180
Total	336,437	165,611

Revenue is recognised at point in time.

During the six months ended 30 June 2023, two of the Group's customers (2022: one customer) with whom transactions have exceeded 10% of the Group's revenue. Revenue from sales of pharmaceutical products to these two customers amounted to RMB49,317,000 and RMB39,925,000 respectively (2022: RMB21,580,000).

(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:

	Six months ended 30 June	
	2023	2022
	RMB’000	RMB’000
Current tax — the PRC Enterprise Income Tax	8,796	456
Deferred tax	(2,347)	(692)
	<u>6,449</u>	<u>(236)</u>

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

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 2023 is 25% (2022: 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% (2022: 15%), which has been applied for each of the six months ended 30 June 2023 and 2022. 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.

6 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings per share is based on the earnings attributable to ordinary equity shareholders of the Company of RMB16,456,000 (six months ended 30 June 2022: loss of RMB7,037,000) and the weighted average of 754,902,000 ordinary shares (2022: 758,986,000) in issue during the reporting period, calculated as follows:

	Six months ended 30 June	
	2023 '000	2022 '000
Issued ordinary shares at 1 January	758,439	769,934
Effect of purchase of own shares	<u>(3,537)</u>	<u>(10,948)</u>
Weighted average number of ordinary shares at 30 June	<u>754,902</u>	<u>758,986</u>

(b) Diluted earnings/(loss) per share

The basic and diluted earnings/(loss) per share are the same as the effects of all dilutive potential ordinary shares are anti-dilutive for the six months ended 30 June 2023 and 2022.

7 TRADE RECEIVABLES

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
	Bills receivable*	<u>116,430</u>
Trade debtors	105,901	74,276
Less: allowance for credit loss	<u>(7,604)</u>	<u>(4,889)</u>
	<u>98,297</u>	<u>69,387</u>
	<u>214,727</u>	<u>247,189</u>

* At 30 June 2023, the Group's bills receivable of RMB39,302,000 and RMB35,932,000 (31 December 2022: RMB51,665,000 and RMB26,911,000) 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 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
Current to 3 months	58,274	48,651
4 to 6 months	27,661	5,490
7 to 12 months	3,346	14,879
Over 12 months	9,016	367
	<u>98,297</u>	<u>69,387</u>

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

8 TRADE AND BILLS PAYABLES

As of the end of the reporting period, the ageing analysis of trade and bills payables, based on the date of goods or services that have been acquired in the ordinary course of business from suppliers, is as follows:

	At 30 June 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
Current to 3 months	72,365	136,920
4 to 6 months	17,812	5,470
7 to 12 months	6,053	2,415
Over 12 months	9,611	18,808
	<u>105,841</u>	<u>163,613</u>

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

9 SHARE CAPITAL

	2023		2022	
	No. of shares	Amount <i>RMB'000</i>	No. of shares	Amount <i>RMB'000</i>
Authorised ordinary shares of HKD0.01 each:				
At 1 January and 30 June	<u>2,000,000,000</u>	<u>16,354</u>	<u>2,000,000,000</u>	<u>16,354</u>
Ordinary shares, issued and fully paid:				
At 1 January	758,439,000	6,383	769,934,000	6,479
Cancellation of treasury shares	–	–	(16,495,000)	(139)
At 30 June	<u>758,439,000</u>	<u>6,383</u>	<u>753,439,000</u>	<u>6,340</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

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

	Six months ended 30 June	
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
No final dividend in respect of the previous financial year, approved during the following interim period, (2022: RMB0.34 cents (equivalent to HKD0.42 cents) per ordinary share)	<u>–</u>	<u>2,618</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Future Prospects

In the first half of 2023, the overall operational performance of the Group showed signs of improvement. After incurring losses in 2022, the Group successfully turned its operations around and achieved profitability, effectively reversing the previous losses. The revenue and gross profit for the first half of 2023 were RMB336.4 million and RMB179.1 million respectively, representing an increase of 103.1% and 124.7% respectively as compared to the corresponding period in 2022. The improvement in performance was partly attributable to the increase in market demand as a result of the adjustments made to China's pandemic prevention measures and control towards the end of 2022, and partly due to the Group's continuous efforts in expanding its sales network and strengthening product branding, which have started to yield positive results gradually.

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, experienced a significant improvement in its operational performance in the first half of 2023, with a year-on-year decrease in operating losses, and is anticipated to achieve profitability for the year of 2023. However, Jiangxi Yongfeng Kangde Pharmaceutical Company Limited* (江西永豐康德醫藥有限公司) (“**Jiangxi Kangde**”), a joint venture of the Group, incurred operating losses in the first half of 2023, primarily due to a significant decrease in revenue and profit from its core product, Kefadim as a result of the impact of the national centralised procurement policy.

While the Group has experienced significant growth in its performance, it has also been consistently increasing its investment in research and development. As the Company's research and development platform, Jiaheng (Zhuhai Hengqin) Pharmaceutical Technology Company Limited* (嘉亨(珠海橫琴)醫藥科技有限公司) (“**Jiaheng Pharmaceutical**”), a wholly-owned subsidiary of the Group, continues to initiate and conduct research and development projects. Currently, there are a total of 32 research and development projects in progress, including 19 pharmaceutical formulation projects, 10 chemical Active Pharmaceutical Ingredient (API) projects, 1 new drug project in the category of traditional Chinese medicine, and 2 projects of classical prescriptions of new drugs in the four categories of traditional Chinese medicine. The total contract value for the approved research and development projects amounts to RMB160 million.

* *For identification purposes only*

During the six months ended 30 June 2023, the Company obtained production approvals through consistency evaluation for the two products, namely fluoxetine hydrochloride capsules and metoprolol tartrate tablets. It is expected that the application for the registration of one of the products will be submitted in the second half of the year. The Company will continue to escalate its research and development investment, aiming to enrich its product pipeline. Furthermore, the Company will actively participate in national drug centralized procurements to provide a solid guarantee for the rapid increase in sales of its products. To ensure a stable and reliable supply of APIs for the pharmaceutical formulation projects, the Company is planning construction projects for APIs production facilities. Upon completion, these projects will produce the APIs required for the Company's existing formulation products as well as the APIs for the products in the pipeline. The Company believes that a stable and cost-effective supply of APIs may ensure that its formulation products demonstrate cost advantages and profit margins over the course of centralized procurement.

In active response to the trend of low-carbon economy, the Company has renovated its existing facilities by installing photovoltaic power generation projects on their rooftops for its own use. During the six months ended 30 June 2023, a 6MW photovoltaic power generation project was completed and connected to the grid at the end of June 2023. Therefore, the Company's operating costs will be effectively reduced, as the costs of electricity generated by a photovoltaic power station were much lower than electrical grid prices. The Company expects that the completed photovoltaic power station can save the Company approximately RMB4.3 million in electricity costs and reduce 3,700 tons of carbon emissions annually.

The uncertainties in the market present numerous challenges to the Group's operations. However, the Group remains committed to placing product quality at its core, actively expanding sales channels, increasing investment in research and development, and continuously enriching its product pipeline. In the meantime, the Company will also keep an eye on new investment areas and opportunities so as to generate greater returns for the shareholders, while ensuring the healthy and sustainable development of the Group.

Financial Review

Sales performance

	Unaudited				
	Six months ended 30 June				
	2023		2022		Growth rate %
Revenue RMB'000	% of total	Revenue RMB'000	% of total		
Manufacturing products					
Shuanghuanglian Oral Solutions	165,916	49.3%	65,381	39.5%	153.8%
Shuanghuanglian Injections	51,201	15.2%	32,771	19.8%	56.2%
Flunarizine Hydrochloride Capsules	10,262	3.1%	11,608	7.0%	(11.6%)
Compound Ferrous Sulfate Granules	9,296	2.8%	8,270	5.0%	12.4%
Other products	82,132	24.4%	39,401	23.8%	108.5%
Subtotal	318,807	94.8%	157,431	95.1%	102.5%
Third-party products	17,630	5.2%	8,180	4.9%	115.5%
Total	336,437	100.0%	165,611	100%	103.1%

Our revenue increased by approximately 103.1% from approximately RMB165.6 million in the first half of 2022 to approximately RMB336.4 million in the first half of 2023, due to the increase in sales volume attributable to the combined effects of (1) the ease of COVID-19 pandemic and the recovering market environment, which led to an increase in market demand; and (2) the Group's efforts in expanding sales network and strengthening product branding.

Among our product categories, revenue from sales of Shuanghuanglian Oral Solutions increased by approximately 153.8% from approximately RMB65.4 million in the first half of 2022 to approximately RMB165.9 million in the first half of 2023, which was mainly attributable to the increase in market demand with the ease of COVID-19 pandemic and the recovering market environment. Revenue from sales of Shuanghuanglian Injections increased by approximately 56.2% from approximately RMB32.8 million in the first half of 2022 to approximately RMB51.2 million in the first half of 2023. The increase in revenue is mainly due to the recovering market environment with the ease of COVID-19 pandemic. The market demand increased meanwhile the Group took efforts in expanding sales network and strengthening product branding. Our revenue from other products increased by approximately 108.5% from approximately RMB39.4 million in the first half of 2022 to approximately RMB82.1 million in the first half of 2023, which was mainly attributable to the increase in market demand.

Gross profit and margin

Our gross profit increased by approximately 124.7% from approximately RMB79.7 million for the first half year of 2022 to approximately RMB179.1 million for the first half year of 2023. The increase in gross profit is in line with the approximately 103.1% increase in total revenue for the first half year of 2023. Meanwhile, gross profit margin slightly increased by 5.1 percentage points to approximately 53.2% for the first half year of 2023 (approximately 48.1% for the first half of 2022).

Other net loss

Our other net loss primarily consists of government grants, net realised and unrealised losses or gains on derivative financial assets and others. The increase was mainly due to the increase in net realised and unrealised losses on derivative financial instruments.

Selling and distribution expenses

Our selling and distribution expenses primarily consist of distribution expenses, advertisement, wages and salaries, promotion expenses and others. In the first half of 2022 and 2023, our selling and distribution expenses amounted to approximately RMB44.6 million and RMB79.1 million respectively, representing approximately 26.9% and 23.5% of our revenue for the respective periods. The increase in selling and distribution expenses is in line with the increase 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 increase of general and administrative expenses of approximately RMB31.9 million from approximately RMB27.9 million for the first half year of 2022 to approximately RMB59.8 million for the first half year of 2023. The Company increased its investment in research and development (R&D), including R&D staff labour and project expenses, which increased by approximately RMB14.0 million in total. The wages and salaries increased by approximately RMB8.9 million from approximately RMB11.9 million for the first half year of 2022 to approximately RMB20.8 million for the first half year of 2023.

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 decreased from approximately RMB9.9 million in the first half year of 2022 to approximately RMB2.2 million in the first half year of 2023, mainly attributable to the decrease in net foreign exchange loss and interest on bank loans.

Share of loss of a joint venture

Share of loss of a joint venture representing the Group's interests increased by approximately RMB11.3 million from approximately RMB1.5 million loss for the six months ended 30 June 2022 to approximately RMB12.8 million loss for the six months ended 30 June 2023. The operation loss in Jiangxi Yongfeng Kangde is mainly due to the effect by a centralized procurement policy in its major products. 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 increased from approximately negative RMB0.2 million in the first half year of 2022 to approximately RMB6.4 million in the first half of 2023. The increase was mainly attributable to the operation profit in the first half year of 2023.

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 2023, the total capital expenditure was approximately RMB73.3 million (the first half year of 2022: approximately RMB19.5 million). The capital expenditures during the period were mainly incurred for the lease payment for a land use right, the enhancement of energy equipment in existing production process and the acquisition of licence of drugs under research.

Capital Structure

The Group's capital structure consists of equity interest attributable to shareholders and liabilities. As at 30 June 2023, the Group's equity interest attributable to shareholders amounted to approximately RMB622.2 million (31 December 2022: approximately RMB614.2 million) in aggregate and total liabilities amounted to approximately RMB691.4 million (31 December 2022: approximately RMB737.4 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 2023, the Group had net current liabilities of approximately RMB162.6 million (31 December 2022: net current liabilities of approximately RMB108.0 million), which included cash and cash equivalents of approximately RMB78.3 million (31 December 2022: approximately RMB128.1 million) and the short-term bank and other loans amounting to approximately RMB290.5 million (31 December 2022: approximately RMB225.8 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 2023, the gearing ratio of the Group, which is calculated by dividing total bank and other loans by total equity, increased to 46.8% from 36.8% as at 31 December 2022. 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 2023, the Group had a total of 1,121 employees (31 December 2022: 1,159 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 2023, the total staff cost (including Director's emoluments, contributions to defined contribution retirement schemes, bonus and other benefits) amounted to approximately RMB57.6 million (six months ended 30 June 2022: RMB38.3 million).

Commitment

Capital commitments of the Group outstanding as at 30 June 2023 and 31 December 2022 are as follows:

	30 June 2023 RMB'000	31 December 2022 RMB'000
Contracted for	<u>27,619</u>	<u>17,634</u>

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2023.

Pledge of Assets

As at 30 June 2023, certain of the Group's bank borrowings were secured by the Group's property, plant and equipment, investment property and land use rights, which had an aggregate carrying amount of approximately RMB114.4 million as of 30 June 2023 (31 December 2022: approximately RMBNil).

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 2023 to 30 June 2023, 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 2023, 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 2023. It has also reviewed the unaudited condensed interim financial report for the six months ended 30 June 2023 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 2023 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 2023.

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

During the six months ended 30 June 2023, the Company repurchased a total of 8,230,000 shares of the Company (the “Shares”) on the Stock Exchange at an aggregate consideration of (excluding expenses) approximately HK\$11.0 million. No repurchased Shares were cancelled during the six months ended 30 June 2023. Details of the repurchases of Shares were as follows:

Month of repurchase	Number of Shares repurchased	Price per Share		Aggregate consideration (excluding expenses) HK\$’000	Number of Shares cancelled
		Highest HK\$	Lowest HK\$		
March, April, May and June 2023	8,230,000	1.37	1.24	11,028	–

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 31 May 2022 and 30 May 2023 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 2023 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 2023 (six months ended 30 June 2022: RMBNil).

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

There are no significant events subsequent to 30 June 2023 and up to the date of this announcement which would materially affect the Group's operations and financial performance.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2023 containing all the information required by the Listing Rules is to be dispatched to the Shareholders of the Company and made available for review on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.fusenyy.com by September 2023.

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

Hong Kong, 29 August 2023

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.