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Fusen Pharmaceutical Company Limited

福森藥業有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1652)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB565.6 million for the year ended 31 December 2023, representing an increase of approximately 15.0% as compared to approximately RMB491.8 million for the year ended 31 December 2022.
- Gross profit increased by approximately 33.1% from approximately RMB225.0 million for the year ended 31 December 2022 to approximately RMB299.5 million for the year ended 31 December 2023.
- Gross profit margin was approximately 53.0% for the year ended 31 December 2023, representing an increase of approximately 7.2% as compared to approximately 45.8% for the year ended 31 December 2022.
- Loss attributable to equity shareholders of the Company was approximately RMB36.3 million for the year ended 31 December 2023 as compared to loss of approximately RMB34.6 million for the year ended 31 December 2022.
- Basic loss per share was approximately RMB5 cents for the year ended 31 December 2023 as compared to basic loss per share was approximately RMB5 cents for the year ended 31 December 2022.
- The Board does not recommend the distribution of any final dividend for the year ended 31 December 2023 (for the year ended 31 December 2022: Nil).

FINAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Fusen Pharmaceutical Company Limited (the “**Company**”) announces the consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2023, together with the comparative figures for the year ended 31 December 2022.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

(Expressed in RMB'000 unless otherwise indicated)

		Year ended 31 December	
	Note	2023	2022
		RMB'000	RMB'000
Revenue	3	565,608	491,757
Cost of sales		<u>(266,102)</u>	<u>(266,736)</u>
Gross Profit		299,506	225,021
Other net income	4	146	7,379
Selling and distribution expenses		(139,541)	(118,721)
General and administrative expenses		(74,898)	(54,745)
Research and development expenses		<u>(65,197)</u>	<u>(15,176)</u>
Profit from operations		20,016	43,758
Finance income		424	1,972
Finance costs		<u>(9,267)</u>	<u>(17,697)</u>
Net finance costs		<u>(8,843)</u>	<u>(15,725)</u>
Impairment on interest in a joint venture		–	(38,007)
Impairment on interest in an associate		(20,329)	–
Share of loss of a joint venture		(11,186)	(11,816)
Share of loss of an associate		(9,106)	(9,203)
Loss before taxation	5	(29,448)	(30,993)
Income tax	6	<u>(6,847)</u>	<u>(3,661)</u>
Loss for the year		<u>(36,295)</u>	<u>(34,654)</u>

		Year ended 31 December	
	<i>Note</i>	2023	2022
		RMB'000	RMB'000
Attributable to:			
Equity shareholders of the Company		(36,277)	(34,605)
Non-controlling interests		(18)	(49)
		<u> </u>	<u> </u>
Loss for the year		<u>(36,295)</u>	<u>(34,654)</u>
Other comprehensive income for the year (after tax)			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
— Exchange differences on translation of financial statements of the Company and overseas subsidiaries		(54)	1,090
		<u> </u>	<u> </u>
Other comprehensive income for the year		<u>(54)</u>	<u>1,090</u>
Total comprehensive income for the year		(36,349)	(33,564)
Attributable to:			
Equity shareholders of the Company		(36,331)	(33,515)
Non-controlling interests		(18)	(49)
		<u> </u>	<u> </u>
Total comprehensive income for the year		<u>(36,349)</u>	<u>(33,564)</u>
Loss per share	7		
Basic (<i>RMB cents</i>)		(5)	(5)
Diluted (<i>RMB cents</i>)		(5)	(5)
		<u> </u>	<u> </u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in RMB'000 unless otherwise indicated)

		As at 31 December	
	Note	2023	2022
		RMB'000	RMB'000
Non-current assets			
Investment property		15,388	16,497
Other property, plant and equipment		350,264	312,108
Right-of-use assets		211,918	217,637
Intangible assets		22,551	483
Financial assets measured at fair value through profit or loss (“FVPL”)		11,013	–
Interest in a joint venture		37,302	48,433
Interest in an associate		100,659	129,876
Deferred tax assets		5,021	5,079
Other assets		22,827	6,099
		<u>776,943</u>	<u>736,212</u>
		-----	-----
Current assets			
Other financial assets		1,279	4,595
Inventories		161,718	110,649
Trade receivables	9	183,482	247,189
Prepayments and other receivables		185,474	103,366
Restricted bank deposit		–	20,151
Cash and cash equivalents		34,849	128,106
		<u>566,802</u>	<u>614,056</u>
		-----	-----
Current liabilities			
Trade and bills payables	10	167,545	163,613
Lease liabilities		1,087	2,107
Contract liabilities		3,895	67,550
Accruals and other payables		249,351	255,823
Bank and other loans		236,556	225,842
Current taxation		6,086	7,147
		<u>664,520</u>	<u>722,082</u>
		-----	-----
Net current liabilities		<u>(97,718)</u>	<u>(108,026)</u>
		-----	-----
Total assets less current liabilities		<u>679,225</u>	<u>628,186</u>
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		As at 31 December	
	<i>Note</i>	2023	2022
		RMB'000	RMB'000
Non-current liabilities			
Deferred income		10,231	11,323
Lease liabilities		772	432
Bank and other loans		105,700	–
Deferred tax liabilities		296	3,538
		<u>116,999</u>	<u>15,293</u>
Net assets		<u>562,226</u>	<u>612,893</u>
Capital and reserves			
Share capital	<i>11</i>	6,310	6,383
Reserves		<u>557,208</u>	<u>607,784</u>
Total equity attributable to equity shareholders of the Company		563,518	614,167
Non-controlling interests		<u>(1,292)</u>	<u>(1,274)</u>
Total equity		<u>562,226</u>	<u>612,893</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB'000 unless otherwise indicated)

1 ORGANISATION AND PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on 18 January 2013 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. The Group is principally engaged in manufacturing and sale of pharmaceutical products.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board (“IASB”). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued certain amendments to IFRS Accounting Standards that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

Going concern assumption

As at 31 December 2023, net current liabilities of the Group was RMB97,718,000, and loss attributable to equity shareholders was RMB36,277,000. The directors, after taking into account of internally generated funds from its operations, successful renewals of bank loans during the year and after the end of reporting period, and considering the cash flow forecast for the year ending 31 December 2024, are of the view that the Group has sufficient funds to meet its working capital commitments, expected capital expenditure and debt obligations. As a result, the consolidated financial statements of the Group for the year ended 31 December 2023 have been prepared on a going concern basis.

The functional currency of the Company is Hong Kong dollars (HKD). The Company's primary subsidiaries were established in the People's Republic of China (the "PRC") and the subsidiaries considered Renminbi (RMB) as their functional currency. As the operations of the Group are conducted in the PRC, the financial statements are presented in RMB, unless otherwise stated.

The consolidated financial statements for the year ended 31 December 2023 comprise the Company and its subsidiaries and the Group's interest in a joint venture and an associate.

The measurement basis used in the preparation of the financial statements is the historical cost except for derivatives and other financial assets measured as FVPL.

(c) Changes in accounting policies

The Group has applied the following new and amended IFRS Accounting Standards issued by the IASB to these financial statements for the current accounting period:

- International Financial Reporting Standard ("IFRS") 17, *Insurance contracts*
- Amendments to International Accounting Standard ("IAS") 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 1, *Presentation of financial statements and IFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies*
- 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 developments have had a material effect on how the Group's results and financial position for the current year have been prepared or presented in these consolidated financial statements. The Group has not applied any amended standard that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Manufacturing products		
Shuanghuanglian Oral Solutions	275,766	236,394
Shuanghuanglian Injections	97,986	73,864
Others	176,870	158,700
	550,622	468,958
Third party products	14,986	22,799
	565,608	491,757

Revenue is recognised at a point in time.

During the year ended 31 December 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 RMB77,069,000 and RMB72,148,000, respectively (2022: RMB64,206,000).

(b) Segment information

The Group has one reportable segment. The Group's revenue is substantially generated from the sales of Shuanghuanglian Oral Solutions, Shuanghuanglian Injections and other pharmaceutical products to customers in the PRC. The Group's operating assets and non-current assets are substantially situated in the PRC. Accordingly, no segment analysis based on geographical locations of the customers and assets is provided.

4 OTHER NET INCOME

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Material and scrap sales income/(losses), net	1,939	(130)
Rental income	495	528
Government grants	6,242	2,358
Net realised and unrealised (losses)/gain of listed trading securities and other financial assets at FVPL	(312)	13
Net realised and unrealised (losses)/gain on derivative financial instruments	(3,316)	5,312
Net losses on disposal of other property, plant and equipment and right-of-use assets	(1,124)	(1,667)
Others	(3,778)	965
	<u>146</u>	<u>7,379</u>

5 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

(a) Staff costs

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Salaries, wages and other benefits	92,526	84,051
Contributions to defined contribution retirement schemes	9,902	6,625
Share-based payment expenses	1,453	1,153
	<u>103,881</u>	<u>91,829</u>

Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated based on certain percentages of the average employee salary as agreed by the respective local municipal governments to the scheme to fund the retirement benefits of the employees. Contributions to the scheme vest immediately, there is no forfeited contribution that may be used by the Group to reduce the existing level of contribution.

The Group has no other obligation for the payment of retirement and other post-retirement benefits of employees other than the contributions described above.

(b) Other items

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of inventories*	269,244	270,410
Depreciation of investment property and other property, plant and equipment	27,901	26,716
Depreciation of right-of-use assets	7,695	7,245
Amortisation of intangible assets	202	200
Auditors' remuneration — audit services	4,008	3,900
Recognition/(reversal) of credit losses on trade and other receivables	17,042	(4,710)

* Cost of inventories includes RMB57,551,000 in 2023 (2022: RMB55,359,000), relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above.

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

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Current tax — PRC Enterprise Income Tax Provision for the year	12,725	6,579
Over-provision in respect of previous years	(2,694)	(2,328)
	10,031	4,251
Deferred tax Origination and reversal of temporary differences	(3,184)	(590)
	6,847	3,661

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

The Group has no assessable profit in Hong Kong for 2023 (2022: Nil) and is not subject to any Hong Kong Profits tax. Hong Kong Profits tax rate of 2023 is 16.5% (2022: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

In accordance with the Enterprise Income Tax Law of the PRC (“the Income Tax Law”), enterprise income tax rate for the Group’s PRC subsidiaries for 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% in 2023 and 2022. The current certification of New and High Technology Enterprise held by Henan Fusen will be expired on 27 October 2024.

According to the Income Tax Law and its implementation rules, dividends receivable by non-PRC resident investors from PRC entities are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profit earned since 1 January 2008.

The Group is in the process of making an assessment of the Group’s exposure from the enactment of the Pillar Two model rules published by the Organisation and Economic Co-operation and Development and considers that the enactment of the rules is unlikely to have a significant impact on the consolidated financial statements.

(b) Reconciliation between income tax and accounting profit at applicable tax rates:

	Year ended 31 December	
	2023	2022
	RMB’000	RMB’000
Loss before taxation	<u>(29,448)</u>	<u>(30,993)</u>
Tax calculated at statutory tax rates applicable to profits in the respective jurisdictions	(7,362)	(7,748)
Tax effect of		
Preferential income tax rates applicable to a PRC subsidiary	(6,370)	(4,462)
Non-deductible expenses	6,262	2,344
Utilisation of deductible temporary differences not recognised in prior years	(222)	(1,361)
Share of loss of a joint venture	2,797	2,954
Share of loss of an associate	2,276	2,301
Unused tax losses not recognised	13,466	12,800
Over-provision in respect of previous years	(2,694)	(2,328)
PRC dividends withholding tax	(1,306)	(839)
Income tax	<u>6,847</u>	<u>3,661</u>

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB36,277,000 (2022: loss of RMB34,605,000) and the weighted average of 752,056,000 ordinary shares (2022: 756,074,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2023 '000	2022 '000
Issued ordinary shares at 1 January	758,439	769,934
Effect of repurchase of shares	<u>(6,383)</u>	<u>(13,860)</u>
Weighted average number of ordinary shares at 31 December	<u>752,056</u>	<u>756,074</u>

(b) Diluted loss per share

The diluted loss per share for the years ended 31 December 2023 and 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.

8 DIVIDENDS

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

The directors of the Company did not propose the payment of any dividend for the year (2022: Nil).

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

	2023 RMB'000	2022 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year	<u>–</u>	<u>2,618</u>

9 TRADE RECEIVABLES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Bills receivable*	117,505	177,802
Trade debtors	84,711	74,276
Less: allowance for credit loss	(18,734)	(4,889)
	65,977	69,387
	183,482	247,189

* At 31 December 2023, the Group's bills receivable of RMB76,781,000 and RMB12,677,000 (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 receivable, the Group's management determined not to derecognise the carrying amounts of these bills receivable and the associated trade payables.

Ageing analysis

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

As of the end of the year, the ageing analysis of trade debtors based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for credit loss, is as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current to 3 months	50,473	48,651
4 to 6 months	7,255	5,490
7 to 12 months	6,805	14,879
Over 12 months	1,444	367
	65,977	69,387

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

10 TRADE AND BILLS PAYABLES

Trade and bills payables are analysed as follows:

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Bills payable	52,570	40,000
Trade payables		
Third parties	113,880	118,636
Amounts due to related parties	1,095	4,977
	<u>167,545</u>	<u>163,613</u>

Ageing analysis

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

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Current to 3 months	129,463	136,920
4 to 6 months	15,710	5,470
7 to 12 months	4,919	2,415
Over 12 months	17,453	18,808
	<u>167,545</u>	<u>163,613</u>

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

11 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 31 December	<u>2,000,000,000</u>	<u>16,354</u>	<u>2,000,000,000</u>	<u>16,354</u>
Ordinary shares, issued and fully paid:				
At 1 January	758,439,000	6,383	769,934,000	6,479
Shares issued under restricted share unit scheme	-	-	5,000,000	43
Cancellation of treasury shares	<u>(8,483,000)</u>	<u>(73)</u>	<u>(16,495,000)</u>	<u>(139)</u>
At 31 December	<u>749,596,000</u>	<u>6,310</u>	<u>758,439,000</u>	<u>6,383</u>

The holders of ordinary shares as at 31 December 2023 are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The Group's net loss for the year ended 31 December 2023 amounted to approximately RMB36.3 million, representing an increase of approximately 4.6% compared to the corresponding period in 2022. The decrease in profit from operations for the year ended 31 December 2023 compared to the corresponding period in 2022 was primarily attributable to increased investments in research and development, aimed at enriching the Company's product pipeline and laying the foundation for the Group's future sales of new products. As the Group's new factories and production lines gradually commenced operations, both production capacity and efficiency witnessed continuous improvements. Furthermore, the Group retrofitted its factories and production lines with photovoltaic technology, harnessing solar energy for power generation to reduce carbon emissions and lower electricity costs. The Group consistently integrated and optimised its sales teams, actively leveraging new media channels to enhance the Company's brand and engage in content promotion. The market experienced sustained and intense fluctuations throughout 2023, particularly during the second half of 2023, intensifying competition. A joint venture and an associate of the Group were also impacted by such market conditions, contributing to their own operational losses and subsequent losses attributable to the Company. Consequently, the Group conducted assessments and provided for the corresponding impairment losses in accordance with the requirements of the accounting standards.

Business Review

The Group's operating revenue in 2023 was approximately RMB565.6 million, representing an increase of 15.0% compared to the corresponding period in 2022. This marks the second consecutive year of continuous growth in the Group's operating revenue and represents the highest annual operating revenue since its listing. The Group's gross profit for 2023 was approximately RMB299.5 million, representing an increase of 33.1% compared to the corresponding period in 2022, and our gross profit margin increased from 45.8% in 2022 to 53.0% in 2023. The growth in the Group's revenue was not only attributable to traditional proprietary cold and fever drugs but also to the continuous growth of revenue and proportion from new sellable products. Moreover, while the operating revenue has been continuously increasing, the Group has made effective control over its marketing expenses, with selling and distribution expenses accounting for approximately 24.7% of operating revenue in comparison to 24.1% in the corresponding period in 2022, reflecting minimal change. The Group has consistently increased its investment in research and development, with research and

development expenses reaching approximately RMB65.2 million in 2023, representing an increase of approximately RMB50.0 million as compared to approximately RMB15.2 million in the corresponding period in 2022. Currently, there are a total of 50 research and development projects in progress, including 31 pharmaceutical formulation projects, 12 chemical Active Pharmaceutical Ingredient (API) projects, 7 new drug project in the category of traditional Chinese medicine, 3 projects are currently under review and approval, and it is expected that the application for the registration of about ten of the products will be submitted in 2024. This investment is primarily aimed at laying the foundation for the Company's future development. Although the Group reported a loss for the year in the consolidated financial statements, Henan Fusen, as our core business segment, continued to maintain profitability when excluding the impact of investment in research and development expenses.

Outlook

Market volatility and intense competition are inevitable stages in the process of corporate development, but the Group remains confident about the future. The Group will continue to increase investments in production and expand its production capacity in preparation for the production of new products in the future. The progress of the Group's chemical Active Pharmaceutical Ingredient (API) production base is steadily advancing as scheduled. In terms of new product development, the Group will continue to increase its investment and select market-valued projects for implementation. Jiaheng (Zhuhai Hengqin) Pharmaceutical Technology Company Limited (“**Jiaheng Pharmaceutical**”), a wholly-owned subsidiary of the Group, will utilise various financing methods to ensure sufficient funds for research and development investments.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by approximately RMB73.8 million, or 15.0%, from approximately RMB491.8 million for the year ended 31 December 2022 to approximately RMB565.6 million for the year ended 31 December 2023. The following table sets out a breakdown of the Group's revenue generated from principal products during the years ended 31 December 2023 and 2022:

	2023		Year ended 31 December 2022		Growth rate %
	Revenue RMB'000	% of total	Revenue RMB'000	% of total	
<i>Manufacturing products</i>					
Shuanghuanglian Oral Solutions	275,766	48.9%	236,394	48.1%	16.7%
Shuanghuanglian Injections	97,986	17.3%	73,864	15.0%	32.7%
Heat-clearing and Detoxicating Oral Solutions	48,605	8.6%	23,716	4.8%	104.9%
Nicardipine Hydrochloride Injections	27,300	4.8%	18,786	3.8%	45.3%
Other Products	100,965	17.8%	116,198	23.7%	-13.1%
Subtotal	550,622	97.4%	468,958	95.4%	17.4%
<i>Third-party products</i>	14,986	2.6%	22,799	4.6%	-34.3%
Total	565,608	100.0%	491,757	100.0%	15.0%

The increase in revenue of the Group was mainly due to the increase in the sales of Shuanghuanglian Oral Solutions, Shuanghuanglian Injections and Heat-clearing and Detoxicating Oral Solutions. The third party products comprise of medicine produced by other pharmaceutical companies. The Group sells those products through its own sales team.

Cost of sales

Cost of sales remained stable at approximately RMB266.1 million for the year ended 31 December 2023, as compared to approximately RMB266.7 million for the year ended 31 December 2022.

Gross profit and gross profit margin

Gross profit increased by approximately RMB74.5 million from approximately RMB225.0 million for the year ended 31 December 2022 to approximately RMB299.5 million for the year ended 31 December 2023. The Group's gross profit margin was approximately 53.0% and 45.8% for the years ended 31 December 2023 and 2022, respectively.

Other net income

Our other net income in 2023 primarily consists of net realised and unrealised gains on derivative financial instruments, government grants and others. The other net income decreased by approximately RMB7.2 million from the other net loss of approximately RMB7.4 million for the year ended 31 December 2022 to the other net income of approximately RMB0.2 million for the year ended 31 December 2023, primarily due to the net realised and unrealised losses on derivative financial instruments.

Selling and distribution expenses

Our selling and distribution expenses primarily consist of wages and salaries, logistics charges, advertisement expenses, commission fee, service fee, business travel expenses and other miscellaneous expenses. The selling and distribution expenses increased by approximately RMB20.8 million, or 17.5%, from approximately RMB118.7 million for the year ended 31 December 2022 to approximately RMB139.5 million for the year ended 31 December 2023, mainly represented by the approximately RMB9.8 million increase in service fee and by the approximately RMB5.3 million in advertisement expenses.

General and administrative expenses

The general and administrative expenses increased by approximately RMB20.2 million, or 36.9%, from approximately RMB54.7 million for the year ended 31 December 2022 to approximately RMB74.9 million for the year ended 31 December 2023, mainly attributable to the increase in credit loss of approximately RMB21.8 million for the year ended 31 December 2023.

Research and development expenses

The research and development expenses increased by approximately RMB50.0 million from approximately RMB15.2 million for the year ended 31 December 2022 to approximately RMB65.2 million for the year ended 31 December 2023. The expenses were mainly for the research and development on new medicine products.

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 RMB15.7 million for the year ended 31 December 2022 to approximately RMB8.8 million for the year ended 31 December 2023, mainly attributable to the decrease in net foreign exchange loss.

Impairment on interest in an associate

Impairment on interest in an associate was arising from the Group's associate, namely Weihai Rensheng Pharmaceutical Group Company Limited (“**Weihai Rensheng**”). The impairment on interest in an associate was approximately RMB20.3 million for the year ended 31 December 2023 (for the year ended 31 December 2022: Nil). As the performance of Weihai Rensheng is less than satisfactory, the management of the Group has carried out an impairment assessment on Weihai Rensheng CGU at 31 December 2023.

Share of loss of a joint venture

Share of loss of a joint venture of the Group decreased by approximately RMB0.6 million from approximately RMB11.8 million profit in 2022 to approximately RMB11.2 million loss in 2023. The Group interests is due from Jiangxi Yongfeng Kangde Pharmaceutical Company Limited (“**Jiangxi Yongfeng Kangde**”), whose 35.8% shares are owned by the Group. Such loss of Jiangxi Yongfeng Kangde was mainly due to a centralized procurement policy and the decrease in sales of its major product, Kefadim, and recognition of write-down of inventories as a result.

Share of loss of an associate

Share of loss of associate of the Group decreased by approximately RMB0.1 million from approximately RMB9.2 million loss in 2022 to approximately RMB9.1 million loss in 2023. The Group interests is due from Weihai Rensheng, whose 34% shares are owned by the Group.

Income tax expenses

Income taxes increased from approximately RMB3.7 million in 2022 to approximately RMB6.8 million in 2023. Income tax primarily represents income tax payable by us 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%. Our effective tax rate was 23.3% and 11.8% in 2023 and 2022 respectively. The increase was primarily attributable to the non-deductible research and development expenses of the Company's subsidiary Jiaheng Pharmaceutical.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2023, the Group had net current liabilities of approximately RMB97.7 million (2022: RMB108.0 million) and cash and cash equivalents of approximately RMB34.9 million (2022: RMB128.1 million).

As at 31 December 2023, the Group's total equity attributable to equity shareholders of the Company amounted to approximately RMB563.5 million (2022: RMB614.2 million), and the Group's total debt amounted to approximately RMB342.3 million (2022: RMB225.8 million). The Directors have confirmed that the Group will have sufficient financial resources to meet its obligations as they fall due in the foreseeable future.

GEARING RATIO

As at 31 December 2023, the gearing ratio of the Group, which is calculated as the total debt divided by the total equity, was approximately 60.9% (2022: 36.8%).

CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2023 and 2022 not provided for in the financial statements were as follows:

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	82,205	17,634

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2023 (2022: Nil).

INFORMATION ON EMPLOYEES

As at 31 December 2023, the Group employed 1,148 employees (2022: 1,159 employees). Employees are remunerated based on their qualifications, position and performance. The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's and individual's performance.

For the year ended 31 December 2023, the total staff cost (including Directors' emoluments, contributions to defined contribution retirement schemes, bonus and other benefits) amounted to approximately RMB103.9 million (2022: RMB91.8 million).

TREASURY POLICY

The Directors will continue to follow a prudent policy in managing the Group's cash and maintaining a strong and healthy liquidity to ensure that the Group is well placed to take advantage of future growth opportunities.

CAPITAL STRUCTURE

The Group's capital structure consists of equity interest attributable to shareholders and liabilities. As at 31 December 2023, the Group's equity interest attributable to shareholders amounted to approximately RMB562.2 million (31 December 2022: approximately RMB612.9 million) in aggregate and total liabilities amounted to approximately RMB781.5 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.

CHARGE ON GROUP ASSETS

As at 31 December 2023, certain of the Group's bank borrowings were secured by the Group's property, plant and equipment and investment property, which had an aggregate carrying amount of RMB63,564,000 (31 December 2022: Nil).

FOREIGN EXCHANGE EXPOSURE

The Group conducts business primarily in the PRC with most of its transactions denominated and settled in Renminbi. The Group has entered into certain cross-currency swap contract to mitigate the effect of its foreign currency exposure arising from the bank loans denominated in USD. The Group monitors foreign exchange exposure regularly and considers if there is a need to hedge against significant foreign currency exposure when necessary.

EVENT AFTER THE REPORTING PERIOD

There is no significant event subsequent to 31 December 2023 and up to the date of this announcement which would materially affect the Group's operations and financial performance.

DIVIDEND POLICY

The Company may distribute dividends by way of cash or by other means that the Company considers appropriate. The Directors currently intend to declare a dividend of no less than 10% of the Company's distributable profit for any particular financial year. Such intention does not amount to any guarantee, representation or indication that the Company must or will declare and pay dividends in such manner or at all. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to shareholders' approval. The Board will review dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- the Group's result of operations;
- the Group's cash flows;
- the Group's financial condition;
- the Group's shareholders' interests;
- general business conditions and strategies of the Group;
- the Group's capital requirements;
- the payment by the Company's subsidiaries of cash dividends to the Company; and
- other factors the Board may deem relevant.

FINAL DIVIDEND

The directors of the Company do not recommend the payment of a final dividend in respect of the year ended 31 December 2023 (2022: Nil).

CORPORATE GOVERNANCE PRACTICE

The Company has adopted the principles and code provisions set out in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 (renumbered as Appendix C1 with effect from 31 December 2023) of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company has complied with all applicable code provisions set out in the Code, except for code provision C.6.1 of the CG Code.

Code provision C.6.1 of the CG Code requires that the company secretary should be an employee of the Company and have day-to-day knowledge of the Company's affairs. Mr. Wong Tik Man (“**Mr. Wong**”) was appointed as the company secretary of the Company with effect from 29 January 2021. He is an external service provider and he is not an employee of the Company. The Company has thus assigned Mr. Li Zhen, the chief financial officer of the Company, as the primary contact person with Mr. Wong. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Mr. Wong through the contact person assigned. Having in place a mechanism that Mr. Wong will get hold of the Group's development promptly without material delay and with his expertise and experience, the Board is confident that having Mr. Wong as the company secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 (renumbered as Appendix C3 with effect from 31 December 2023) of the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry, all Directors have fully complied with the required standards set out in the Model Code during the year ended 31 December 2023.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2023, the Company repurchased a total of 13,175,000 Shares on the Stock Exchange at an aggregate consideration of (excluding expenses) approximately HK\$17.9 million. Among those repurchased shares, 8,483,000 shares were cancelled during the year ended 31 December 2023, and 4,921,000 Shares were not yet cancelled as at 31 December 2023. The issued share capital of the Company was reduced by the par value thereof. Details of the repurchases of Shares during the year ended 31 December 2023 were as follows:

Month of repurchase	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate consideration (excluding expenses) HKD'000	Number of shares cancelled	Number of treasury shares
January 2022	3,431,000	1.30	1.11	4,222	–	8,543,000
March 2022	371,000	1.07	1.03	393	–	8,914,000
April 2022	2,545,000	1.02	0.93	2,500	–	11,459,000
May 2022	5,036,000	0.99	0.90	4,752	–	16,495,000
June 2022	229,000	0.94	0.90	213	(16,495,000)	229,000
	<u>11,612,000</u>			<u>12,080</u>	<u>(16,495,000)</u>	
March 2023	1,718,000	1.35	1.25	2,285	–	1,947,000
April 2023	4,756,000	1.35	1.25	6,406	–	6,703,000
May 2023	976,000	1.37	1.28	1,319	–	7,679,000
June 2023	780,000	1.35	1.24	1,018	–	8,459,000
July 2023	24,000	1.30	1.25	30	–	8,483,000
September 2023	–	–	–	–	(8,483,000)	–
November 2023	2,585,000	1.50	1.31	3,672	–	2,585,000
December 2023	2,336,000	1.40	1.28	3,180	–	4,921,000
	<u>13,175,000</u>			<u>17,910</u>	<u>(8,483,000)</u>	

The repurchase of shares was made by the Directors, pursuant to the general mandate granted by the Shareholders at the respective 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 year ended 31 December 2023.

AUDIT COMMITTEE

The audit committee (the “**Audit Committee**”) of the Company was established on 14 June 2018. The chairman of the Audit Committee is Mr. Sze Wing Chun, the independent non-executive Director, and other members included Mr. Lee Kwok Tung, Louis and Dr. To Kit Wa, the independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the Stock Exchange’s website and on the Company’s website.

The primary duties of the Audit Committee are mainly to review the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the consolidated financial statements for the year ended 31 December 2023. This final results announcement of the Group for the year ended 31 December 2023 has been reviewed by the Audit Committee.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Company’s auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by KPMG in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by the auditor on this announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and that of the Company (www.fusenyy.com). The annual report will be dispatched to the shareholders of the Company and will be available on the website of the Stock Exchange and that of the Company in due course.

APPRECIATION

Mr. Cao Changcheng, the chairman of the Board, would like to express his sincerest gratitude to the shareholders, customers, suppliers and subcontractors for their continuous support. He would also send his warmest thanks to all the management and staff members of the Group for their hard work and dedication.

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

Hong Kong, 28 March 2024

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