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 2018

The board of directors (the "**Board**") of Fusen Pharmaceutical Company Limited (the "**Company**") is pleased to announce the unaudited interim results of the Company and its subsidiaries for the six months ended 30 June 2018, together with the comparative figures for the corresponding period in 2017.

FINANCIAL HIGHLIGHTS

— Our revenue increased by approximately 17.4% from approximately RMB231.7 million in the first half of 2017 to approximately RMB271.9 million in the first half of 2018.

— Our gross profit increased by approximately 16.5% from approximately RMB127.7 million for the first half of 2017 to approximately RMB148.9 million for the first half of 2018.

— The Board declared an interim dividend of RMB0.54 cents per ordinary share (interim dividend for the first half of 2017: Nil) with a dividend payout ratio of 10.0% (less 10% PRC withholding tax under the Law of the PRC)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018 — unaudited

	Note	Six months ended 30 June **2018** *RMB'000*	2017 *(Note)* *RMB'000*
Revenue	*4*	**271,907**	231,663
Cost of sales		**(123,052)**	(103,919)
Gross profit		**148,855**	127,744
Other net income		**10,572**	2,250
Selling and distribution expenses		**(56,057)**	(42,102)
General and administrative expenses		**(28,533)**	(22,300)
Profit from operations		**74,837**	65,592
Finance income		**785**	12,914
Finance costs		**(9,228)**	(15,385)
Net finance costs	*5*	**(8,443)**	(2,471)
Profit before taxation		**66,394**	63,121
Income tax	*6*	**(12,905)**	(10,743)
Profit for the period		**53,489**	52,378
Profit for the period attributable to:			
Equity shareholders of the Company		**53,498**	52,104
Non-controlling interests		**(9)**	274
Profit for the period		**53,489**	52,378
Other comprehensive income for the period (after tax)			
Item that may be reclassified subsequently to profit or loss			
— Exchange differences on translation of financial information of entities outside mainland China		**(230)**	37
Total comprehensive income for the period		**53,259**	52,415
Earnings per share			
Basic and diluted *(RMB cents)*	*7*	**9**	9

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2018 — unaudited

	Note	**30 June 2018** *RMB'000*	31 December 2017 *(Note)* *RMB'000*
Non-current assets			
Property, plant and equipment	*8*	**161,680**	164,789
Interests in leasehold land held for own use under operating leases		**26,875**	27,225
Intangible assets		**1,383**	1,483
Deferred tax assets		**4,626**	4,974
Other non-current assets		**2,771**	–
		197,335	198,471
Current assets			
Inventories	*9*	**106,842**	100,506
Trade receivables	*10*	**151,224**	109,115
Prepayments and other receivables		**47,130**	41,515
Restricted guarantee deposits		**8,000**	26,992
Cash and cash equivalents		**362,626**	474,621
		675,822	752,749
Current liabilities			
Trade and bills payables	*11*	**113,435**	119,698
Contract liabilities		**4,485**	–
Accruals and other payables		**214,854**	235,358
Bank loans		**195,000**	360,000
Current taxation		**16,003**	16,922
		543,777	731,978
Net current assets		**132,045**	20,771
Total assets less current liabilities		**329,380**	219,242

	Note	30 June 2018 RMB'000	31 December 2017 (Note) RMB'000
Non-current liabilities			
Deferred income		**4,669**	4,865
Bank loans		**90,000**	31,600
		94,669	36,465
Net assets		**234,711**	182,777
Capital and reserves			
Share capital	*12*	**1,274**	1,274
Reserves		**231,309**	179,291
Total equity attributable to equity shareholders of the Company		**232,583**	180,565
Non-controlling interests		**2,128**	2,212
Total equity		**234,711**	182,777

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018 — unaudited

	Note	Attributable to equity shareholders of the Company								
		Share capital	Share premium	Statutory surplus reserves	Other reserves	Exchange reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 31 December 2017 *(Note)*		**1,274**	**69,586**	**42,890**	**(12,769)**	**(173)**	**79,757**	**180,565**	**2,212**	**182,777**
Adjusted on initial application of IFRS 9 (net of tax)	3	**–**	**–**	**(125)**	**–**	**–**	**(1,125)**	**(1,250)**	**–**	**(1,250)**
Adjusted balance at 1 January 2018		**1,274**	**69,586**	**42,765**	**(12,769)**	**(173)**	**78,632**	**179,315**	**2,212**	**181,527**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**53,498**	**53,498**	**(9)**	**53,489**
Other comprehensive income		**–**	**–**	**–**	**–**	**(230)**	**–**	**(230)**	**–**	**(230)**
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**(230)**	**53,498**	**53,268**	**(9)**	**53,259**
Dividends declared		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(75)**	**(75)**
Balance at 30 June 2018		**1,274**	**69,586**	**42,765**	**(12,769)**	**(403)**	**132,130**	**232,583**	**2,128**	**234,711**

	Note	Attributable to equity shareholders of the Company								
		Share capital	Share premium	Statutory surplus reserves	Other reserves	Exchange reserves	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2017		71,633	–	33,072	5,582	(199)	10,977	121,065	5,544	126,609
Profit for the period		–	–	–	–	–	52,104	52,104	274	52,378
Other comprehensive income		–	–	–	–	37	–	37	–	37
Total comprehensive income for the period		–	–	–	–	37	52,104	52,141	274	52,415
Capital Injection		5,057	–	–	2,425	–	–	7,482	–	7,482
Acquisition of non-controlling interests in a subsidiary		–	–	–	2,800	–	–	2,800	(3,370)	(570)
Dividends declared		–	–	–	–	–	(18,222)	(18,222)	(194)	(18,416)
Effect on equity arising from the reorganisation		(75,879)	4,999	–	(21,152)	–	–	(92,032)	–	(92,032)
Balance at 30 June 2017		811	4,999	33,072	(10,345)	(162)	44,859	73,234	2,254	75,488

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018 — unaudited

		Six months ended 30 June	
		2018	2017
			(Note)
	Note	***RMB'000***	*RMB'000*
Operating activities			
Cash generated from operations		**22,067**	66,781
PRC income tax paid		**(13,256)**	(6,333)
Net cash generated from operating activities		**8,811**	60,448
Investing activities			
Payment for the purchase of property, plant and equipment		**(10,864)**	(6,044)
Other cash flows generated from/(used in) investing activities		**12,106**	(1,773)
Net cash generated from/(used in) investing activities		**1,242**	(7,817)
Financing activities			
Dividends paid		**–**	(25,018)
Payment for the acquisition of Henan Fusen Pharmaceutical		**–**	(92,032)
Capital injection		**–**	7,482
Proceeds/(repayment) of bank loans, net		**(122,335)**	(126,106)
Net cash used in financing activities		**(122,335)**	(235,674)
Net decrease in cash and cash equivalents		**(112,282)**	(183,043)
Cash and cash equivalents at 1 January		**474,621**	244,390
Effect of foreign exchange rate changes		**287**	237
Cash and cash equivalents at end of period		**362,626**	61,584

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 ORGANIZATION AND PRINCIPLE ACTIVITIES

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

The Company and its subsidiaries (together, "**the Group**") are principally engaged in manufacturing and sale of pharmaceutical products.

On 11 July 2018, the Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

2 BASIS OF PREPARATION

This condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange, 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 31 August 2018.

The condensed consolidated interim financial information has been prepared in accordance with the same accounting policies adopted in the accountants' report extracted from the prospectus of the Company dated 28 June 2018 (the "**Accountants' Report**"), except for the accounting policy changes that are expected to be reflected in the consolidated financial statements for the year ended 31 December 2018. Details of any changes in accounting policies are set out in note 3.

The preparation of condensed consolidated interim financial information 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.

This condensed consolidated interim financial information contains condensed 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 Accountants' Report. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with IFRSs.

The condensed consolidated interim financial information is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagement 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as comparative information does not constitute the Company's annual financial statements for that financial year but is derived from the Accountants' Report.

3 CHANGES IN ACCOUNTING POLICIES

(a) Overview

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, Financial instruments
- IFRS 15, Revenue from contracts with customers
- IFRIC 22, Foreign currency transactions and advance consideration

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, Prepayment features with negative compensation which have been adopted at the same time as IFRS 9.

The Group has been impacted by IFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by IFRS 15 in relation to presentation of contract assets and contract liabilities. Details of the changes in accounting policies are discussed in note 3(b) for IFRS 9 and note 3(c) for IFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of IFRS 9 and IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS 9 and IFRS 15.

	At 31 December 2017	**Impact on initial application of IFRS 9**	**Impact on initial application of IFRS 15**	**At 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax assets	4,974	220	–	5,194
Total non-current assets	198,471	220	–	198,691
Trade receivables	109,115	(1,470)	–	107,645
Total current assets	752,749	(1,470)	–	751,279
Accruals and other payables	235,358	–	(6,734)	228,624
Contract liabilities	–	–	6,734	6,734
Net current assets	20,771	(1,470)	–	19,301
Total assets less current liabilities	219,242	(1,250)	–	217,992
Net assets	182,777	(1,250)	–	181,527
Reserves	179,291	(1,250)	–	178,041
Total equity attributable to equity shareholders of the Company	180,565	(1,250)	–	179,315
Total equity	182,777	(1,250)	–	181,527

Further details of these changes are set out in sub-sections (b) and (c) of this note.

(b) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

The following table summarises the impact of transition to IFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	RMB'000
Retained earnings and statutory surplus reserves	
Recognition of additional expected credit losses on:	
Trade receivables	(1,470)
Related tax	220
Net decrease in retained earnings and statutory surplus reserve at 1 January 2018	(1,250)

IFRS 9 replaces the "incurred loss" model in IAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

— financial assets measured at amortised cost (including cash and cash equivalents, restricted guarantee deposits and trade and other receivables);

(c) IFRS 15, Revenue from contracts with customers

Under IFRS 15, an entity is required to identify the performance obligations in the contract, determine the transaction price of the contract, allocate the transaction price to the performance obligations in the contract based on each performance obligation's standalone price, and recognise revenue when the performance obligations are satisfied.

The Group has assessed whether and how the new requirements would impact its accounting in different areas, including identification of the number and the nature of performance obligations for bundled sales transactions and sales incentive offers, determination of standalone price, price allocation method, contract modifications and cost capitalisation. Based on the assessment completed, with the exception of the accounting for contract costs which is further explained below, the Group has concluded that the new requirements did not result in material adjustments on the opening balances at 1 January 2018 as the Group's previous accounting policy was generally consistent with the new requirements in material respects.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to contracts in progress were presented in the statement of financial position under "accruals and other payables".

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

— Advance and deposit from customers amounting to RMB6,734,000 are now included in the "contract liabilities".

(d) IFRIC 22, "Foreign currency transactions and advance consideration"

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

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	
	2018	2017
	RMB'000	*RMB'000*
Shuanghuanglian Oral Solutions	**141,849**	128,212
Shuanghuanglian Injections	**66,692**	50,892
Others	**63,366**	52,559
	271,907	231,663

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue during the six months ended 30 June 2018 and 2017.

(b) Segment information

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

5 NET FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Finance income	**785**	12,914
Less: Finance costs		
— Interest on bank loans	**9,713**	15,585
— Net foreign exchange loss	**(485)**	(200)
Net finance costs	**(8,443)**	(2,471)

6 INCOME TAX

Amounts recognised in profit or loss:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Current tax expense-the PRC Enterprise Income Tax		
Provision for the period	**12,336**	11,048
Deferred tax		
Origination and reversal of temporary differences	**569**	(305)
	12,905	10,743

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 during the six months ended 30 June 2018 and 30 June 2017, respectively, and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate during the reporting periods is 16.5%.

In accordance with the Enterprise Income Tax Law ("**Income Tax Law**") of the PRC, enterprise income tax rate for the Group's PRC subsidiaries during the six months ended 30 June 2018 is 25% (2017: 25%).

According to the relevant PRC income tax law, the Company's subsidiary, Henan Fusen Pharmaceutical Company Limited ("**Henan Fusen Pharmaceutical**") was certified as a New and High Technology Enterprise since 2012, and is entitled to a preferential income tax rate of 15%, which has been applied for each of the six months ended 2018 and 2017. The current certification of New and High Technology Enterprise held by Henan Fusen Pharmaceutical was expired on 2 August 2018. The Group is in the process of applying for the new certification of New and High Technology Enterprise.

According to the Income Tax Law and its implementation rules, dividends receivable by non-PRC resident corporate investors from PRC-residents are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. The Group has adopted the 10% withholding tax rate for PRC withholding tax purposes.

7 EARNINGS PER SHARE

The calculation of basic earnings per share during the six months ended 30 June 2018 and 2017 is based on the profit for the respective period and on the assumption that 600,000,000 ordinary shares of the Company had been issued throughout the six months ended 30 June 2018 and 2017, by retrospectively adjusting for the effect of the Group Reorganisation and Capitalisation Issue of the Company that are deemed to have become effective since 1 January 2017 as detailed in note 12.

There were no dilutive potential ordinary shares during the six months ended 30 June 2018 and 2017 and, therefore, diluted earnings per share are the same as the basic earnings per share.

8 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018 and 2017, the Group acquired items of property, plant and equipment with a cost of RMB5,067,000 and RMB5,021,000 respectively. Property, plant and equipment was disposed with a cost of RMB721,000 and RMB Nil during the six months ended 30 June 2018 and 2017.

As at 30 June 2018, certain of the Group's bank borrowings were secured by the Group's property, plant and equipment and interests in leasehold land held for own use under operating leases, which had an aggregate carrying amount of RMB88,760,000 as of 30 June 2018 (31 December 2017: RMB92,287,000).

9 INVENTORIES

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Raw materials	**43,655**	43,238
Work in progress	**10,459**	11,398
Finished goods	**52,728**	45,870
	106,842	100,506

10 TRADE RECEIVABLES

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Bills receivable*	**54,252**	52,418
Trade debtors	**104,295**	60,223
Less: allowance for doubtful debts	**7,323**	3,526
	151,224	109,115

* At 30 June 2018 and 31 December 2017, the Group's bills receivable of RMB48,605,000 and RMB25,859,000 were endorsed to suppliers, which were included in the balances, respectively. As the Group has not transferred the substantial risks and rewards relating to these bills receivable, the Group's management determined not to derecognise the carrying amounts of these bills receivable and the associated trade payables settled.

(a) Ageing analysis

As at 30 June 2018 and 31 December 2017, the ageing analysis of trade debtors based on the invoice date (or date of revenue recognition, if earlier), is as follows:

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Current to 3 months	**125,718**	96,786
3 to 6 months	**24,333**	7,851
6 to 12 months	**4,781**	5,148
Over 12 months	**3,715**	2,856
	158,547	112,641

The credit terms agreed with customers were normally ranged from 1 month to 6 months from the date of billing. No interests are charged on the trade receivables.

11 TRADE AND BILLS PAYABLES

As at 30 June 2018 and 31 December 2017, 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 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Within 3 months	**90,882**	98,874
3 to 6 months	**11,646**	6,483
6 to 12 months	**5,597**	7,825
More than 1 year	**5,310**	6,516
	113,435	119,698

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

12 SHARE CAPITAL

	2018	
	No. of shares	**Amount**
		RMB'000
Authorised-ordinary shares of HK$0.01 each:		
At 1 January	**300,000,000**	**2,498**
Increase	**1,700,000,000**	**13,856**
At 30 June	**2,000,000,000**	**16,354**
Ordinary shares, issued and fully paid:		
At 1 January	**153,246,304**	**1,274**
At 30 June	**153,246,304**	**1,274**

The holders of ordinary shares as at 30 June 2018 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.

After the reorganisation through allotting and issuing a series of shares and acquiring the entire equity of Henan Fusen Pharmaceutical (the "**Group Reorganisation**") in 2017, the Company became the holding company of the Group and the total number of shares of the Company in issue was 153,246,304 as at 31 December 2017.

On 14 June 2018, pursuant to the written resolutions of the equity shareholders of the Company, the authorised share capital of the Company was increased from HK$3,000,000 to HK$ 20,000,000 divided into 2,000,000,000 shares, by the creation of a further 1,700,000,000 ordinary shares.

Pursuant to the resolutions of the shareholders passed on 14 June 2018, subject to the share premium account of the Company being credited as a result of the global offering, the directors are authorised to allot and issue a total of 446,753,696 shares credited as fully paid at par by way of capitalisation of the sum of HK$4,467,536.96 standing to the credit of the share premium account of the Company, and the shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued shares ("**Capitalisation Issue**"). The Capitalisation Issue was completed on 11 July 2018.

13 DIVIDENDS

No dividend has been paid or declared by the Company since its incorporation.

During the six months ended 30 June 2018 and 2017, dividends of nil and RMB18,222,000 were declared by Henan Fusen Pharmaceutical to its then equity shareholders. All the dividends have been paid by 30 June 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2018, we continued our growth record. Our revenue and gross profit for the first half of 2018 were approximately RMB271.9 million and RMB148.9 million, representing an increase of approximately 17.4% and 16.5%, respectively as compared with the corresponding period of last year. Revenue from sales of most of our product categories increased during the same period. In particular, revenue from sales of Shuanghuanglian Injections increased by approximately 31.0% and revenue from sales of Shuanghuanglian Oral Solutions increased by approximately 10.6% as compared with the corresponding period of last year.

In addition, the Company was successfully listed on the Main Board of the Stock Exchange on 11 July 2018 (the "**Listing Date**"), marking a milestone for the Group in improving its capital strength and corporate governance as well as enhancing its competitive edge, which laid a solid foundation for the Group's future development.

Prospects

In the first half of 2018, with the gradual implementation of various new medical reform policies, the pharmaceutical industry in the PRC is ushering in new competition rules and development opportunities. All regions are carrying out influential policies which will result in huge changes in the pharmaceutical market structures. The competition among enterprises is returning to that of the essence of products and services. We will be facing an industrial environment that pays more attention to the efficacy and quality of products and is more conducive to the inherent competitiveness of quality enterprises. The management of the Company is well aware of the challenges and opportunities brought to the Company by the changes in the pharmaceutical industry. We will continue to enhance the competitiveness of the Company in the fields of research and development, sales and production.

Financial Review

Sales performance

	Unaudited Six months ended 30 June				
	2018		2017		
	Revenue RMB'000	**% of total**	*Revenue RMB'000*	% of total	Growth rate %
Shuanghuanglian Oral Solutions (10 ml)	**106,290**	**39.1%**	94,699	40.9%	12.2%
Shuanghuanglian Oral Solutions (20 ml)	**35,559**	**13.1%**	33,513	14.4%	6.1%
Subtotal	**141,849**	**52.2%**	128,212	55.3%	10.6%
Shuanghuanglian Injections	**66,692**	**24.5%**	50,892	22.0%	31.0%
Compound Ferrous Sulfate Granules	**11,103**	**4.1%**	10,352	4.5%	7.3%
Flunarizine Hydrochloride Capsules	**10,375**	**3.8%**	10,429	4.5%	-0.5%
Others products	**41,888**	**15.4%**	31,778	13.7%	31.8%
Subtotal	**130,058**	**47.8%**	103,451	44.7%	25.7%
Total	**271,907**	**100%**	231,663	100%	17.4%

Our revenue increased by approximately 17.4% from approximately RMB231.7 million in the first half of 2017 to approximately RMB271.9 million in the first half of 2018, primarily due to (i) increases in average selling price of our products Shuanghuanglian Oral Solutions; and (ii) increase in sales volume of our Shuanghuanglian Injections.

Among our product categories, revenue from sales of Shuanghuanglian Oral Solutions increased by approximately 10.6% from approximately RMB128.2 million in the first half of 2017 to approximately RMB141.8 million in the first half of 2018, was mainly attributable to an approximately 14.3% increase in the average selling price setting off by approximately 3.2% decrease in sales volume during the first half of 2018 when compared with the same period in 2017. Revenue from sales of other products constituted a larger portion of our total revenue and increased by approximately 20.6% from approximately RMB52.6 million in the first half of 2017 to approximately RMB63.4 million in the first half of 2018, primarily due to our continuous promotion of our other products such as Compound Ferrous Sulfate Granule (複方硫酸亞鐵).

Gross profit and margin

Our gross profit increased by approximately 16.5% from approximately RMB127.7 million for the first half of 2017 to approximately RMB148.9 million for the first half of 2018. The increase in gross profit is inline with the approximately 17.4% increase in total turnover for the first half of 2018 and the stable gross profit margin of approximately 54.7% for the first half of 2018 (approximately 55.1% for the first half of 2017).

Other net income

Our other net income primarily consists of net material and scrap sales income, rental income, income or expenses in connection with financial guarantee issued, government grants and others. The increase in other net income during the period primarily represented write back of long-outstanding payables.

Selling and distribution expenses

Our selling and distribution expenses primarily consist of commission, advertisement, wages and salaries, promotion expenses, damage, logistics fee, business, traveling, rental and others. In the first half of 2017 and 2018, our selling and distribution expenses amounted to approximately RMB42.1 million and RMB56.1 million, respectively, representing approximately 18.2% and 20.6% of our revenue for the respective periods.

Commission remains one of our primary means to incentivizes our sales representatives to actively promote our products to our distributors and direct customers. Commission increased from approximately RMB26.5 million in the first half of 2017 to approximately RMB35.2 million in the same period in 2018. The increase is a result of the special promotion campaign carried out during May and June 2018 to boost sales. We also increased our spending on advertisement from approximately RMB2.5 million in the first half of 2017 to approximately RMB3.3 million in the first half of 2018 in order to further enhance our brand recognition. In addition, the wages and salaries we paid to our sales representatives also resulted in an increase of approximately RMB2.3 million in first six months of 2018.

General and administrative expenses

Our general and administrative expenses primarily consist of wages and salaries, depreciation, consultant, taxation, impairment loss on assets, conference, research and development costs, business taxes and surcharges, bank charges and others.

The increase in general and administrative expenses in the periods primarily represented by the approximately RMB3.6 million increase in expenses in connection with the Listing, the approximately RMB3.9 million increase in research and development expenses on quality and efficacy consistency evaluation of generic drugs and the approximately RMB1.9 million increase in impairment loss on assets, which, offset by the approximately RMB3.2 million decrease in wages and salaries, entertainment and other miscellaneous expenses due to strengthened cost control measures.

Net finance costs

Our net finance costs represent finance income, which includes interest income derived from loans to related parties and bank deposits, less finance costs, which includes interest on bank loans and bills discount expense.

In the first half of 2017, we recorded finance income of RMB12.9 million which was mainly from the interest bearing advances to our related parties.

In the first half of 2017 and 2018, we recorded finance costs of approximately RMB15.6 million and RMB9.7 million, respectively. Our finance costs decreased by approximately 37.7% from approximately RMB15.6 million in the first half of 2017 to approximately RMB9.7 million in the first half of 2018 as we gradually reduce the level of financing from the banks.

Income tax

Income tax primarily represents income tax payable by us under relevant PRC income tax rules and regulations. Henan Fusen Pharmaceutical, 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%. In the first half of 2017 and 2018, our effective tax rate was 17.0% and 19.4%, respectively. The increase was primarily attributable to the provision for PRC withholding tax on dividend from Henan Fusen Pharmaceutical.

Capital Expenditures

The Group's capital expenditures primarily consist of payments and deposits for purchase of property, plant and equipment, land use rights and intangible assets. In the first half of 2018, the total capital expenditure was approximately RMB5.1 million (the first half of 2017: approximately RMB5.0 million). The capital expenditures during the period under review were mainly incurred for the acquisition of production equipment and enhancement of existing production line.

Bank and Other Loans

As at 30 June 2018, the Group's short-term borrowings and long-term borrowings amounted to approximately RMB285.0 million (31 December 2017: approximately RMB391.6 million).

	As at 30 June 2018 *RMB'000* **(unaudited)**	As at 31 December 2017 *RMB'000*
Short-term borrowings	**195,000**	360,000
Long-term borrowings	**90,000**	31,600
Total	**285,000**	391,600

The decrease in bank loans primarily represented loan repayment made during the first half of 2018. As at 30 June 2018, the long-term borrowings were mainly due within two years. The Group's bank borrowings are denominated in Renminbi.

Capital Structure

The Group's capital structure consists of equity interest attributable to shareholders and liabilities. As at 30 June 2018, the Group's equity interest attributable to shareholders amounted to approximately RMB234.7 million (31 December 2017: approximately RMB182.8 million) in aggregate and total liabilities amounted to approximately RMB638.4 million (31 December 2017: approximately RMB768.4 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 2018, the Group had net current assets of approximately RMB132.0 million (31 December 2017: approximately RMB20.8 million), which included cash and cash equivalent of approximately RMB362.6 million (31 December 2017: approximately RMB474.6 million) and the current portion of interest-bearing bank and other borrowings amounting to approximately RMB195.0 million (31 December 2017: approximately RMB360.0 million). As at 30 June 2018, the Group's interest bearing bank and other borrowing and unused bank facilities amounted to approximately RMB285.0 million (31 December 2017: approximately RMB391.6 million) and approximately RMB50 million (31 December 2017: approximately RMB170 million), respectively.

Gearing Ratio

As at 30 June 2018, the gearing ratio of the Group, which is calculated by dividing total interest-bearing bank and other borrowings by total equity, decreased to 1.21 from 2.14 as at 31 December 2017. The decrease was primarily due to repayment of loans borrowed by the Group during the period under review.

Exchange Risk

The Group conducts business primarily in China with most of its transactions denominated and settled in Renminbi. Currently, the Group has not entered into any foreign exchange contracts to hedge against the fluctuations in exchange rate between Renminbi and other currencies. However, 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 2018, the Group had a total of 1,396 employees (31 December 2017: 1,356 employees). In the first half of 2018, total staff costs excluding Directors' remuneration was approximately RMB73.1 million (the first half of 2017: approximately RMB62.6 million). 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.

Commitment

Capital commitments of the Group outstanding as at 31 December 2017, and 30 June 2018 not provided for in the financial statement was as follows:

	30 June 2018 *RMB'000* **(Unaudited)**	31 December 2017 *RMB'000*
Contracted for	**6,085**	4,348
Total	**6,085**	4,348

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2018.

Pledge of Assets

As at 30 June 2018, certain of the Group's bank borrowings were secured by the Group's property, plant and equipment and interests in leasehold land held for own use under operating leases, which had an aggregate carrying amount of approximately RMB88.8 million as of 30 June 2018 (31 December 2017: approximately RMB92.3 million), respectively.

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. Since the Listing Date and up to the date of this announcement, the Company has complied with all applicable code provisions set out in the Code.

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 C.3 of the Code. The Audit Committee consists 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. Ho Ka Chun and Mr. Shang Lei. 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 and the external auditors.

REVIEW OF THE INTERIM RESULTS

The interim report of the Group for the six months ended 30 June 2018 has also been reviewed and approved by the Audit Committee.

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 since the Listing Date and up to the date of this announcement.

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

Since the Listing Date and up to the date of this announcement, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

On 11 July 2018, the Company's shares were listed on the Main Board of the Stock Exchange. On the same date, the Company issued 200,000,000 Shares with a par value of HK$0.01 each under the Global Offering (as defined in the prospectus of the Company dated 28 June 2018) at HK$2.08 per share.

INTERIM DIVIDEND

The Group achieved good results in the first half of 2018. Our revenue increased by approximately 17.4% from approximately RMB231.7 million in the first half of 2017 to approximately RMB271.9 million in the first half of 2018. The profit attributable to equity shareholders of the Group increased by approximately 2.7% to approximately RMB53.5 million. In view of the satisfactory performance and pursuant to our dividend policy, the Board declared an interim dividend of RMB0.54 cents (equivalent to HK$0.62 cents, by adopting the prevailing exchange rate on 30 August 2018 set by the People's Bank of China) per ordinary share (interim dividend for the first half of 2017: Nil) with a dividend payout ratio of 10.0% (less 10% PRC withholding tax under the Law of the PRC).

The interim dividend will be payable no later than 30 November 2018 to the shareholders of the Company whose names appear on the register of members of the Company on 19 September 2018.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 17 September 2018, to Wednesday, 19 September 2018, both dates inclusive, during which period no transfer of Shares will be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 14 September 2018.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2018 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 on 14 September 2018.

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

Hong Kong, 31 August 2018

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 Dudu as executive Directors, Mr. Wang Jianhang as non-executive Director, and Mr. Sze Wing Chun, Mr. Shang Lei and Mr. Ho Ka Chun as independent non-executive Directors.