福森藥業有限公司
FUSEN PHARMACEUTICAL COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1652

Interim Report 2018

Contents

Corporate Information

EXECUTIVE DIRECTORS
Mr. Cao Changcheng *(Chairman)*
Mr. Cao Dudu
Mr. Hou Taisheng
Ms. Meng Qingfeng
Mr. Chi Yongsheng

NON-EXECUTIVE DIRECTOR
Mr. Wang Jianhang

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Sze Wing Chun
Mr. Shang Lei
Mr. Ho Ka Chun

AUDIT COMMITTEE
Mr. Sze Wing Chun *(Chairman)*
Mr. Ho Ka Chun
Mr. Shang Lei

NOMINATION COMMITTEE
Mr. Cao Changcheng *(Chairman)*
Mr. Ho Ka Chun
Mr. Shang Lei

REMUNERATION COMMITTEE
Mr. Shang Lei *(Chairman)*
Mr. Cao Changcheng
Mr. Ho Ka Chun

COMPANY SECRETARY
Mr. Leung Wai Fung Joseph (FCPA)

AUTHORIZED REPRESENTATIVES
Mr. Cao Dudu
Mr. Leung Wai Fung Joseph

INVESTOR RELATIONS
Mr. Cao Dudu

AUDITOR
KPMG
Certified Public Accountants

COMPLIANCE ADVISER
Dakin Capital Limited

LEGAL ADVISOR
D. S. Cheung & Co.

REGISTERED OFFICE
PO Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN CHINA
Urban Industrial Zone
Xichuan County, Henan Province
China
（中國河南省淅川縣城區工業園區）

PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART 16 OF THE COMPANIES ORDINANCE
29/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

HONG KONG SHARE REGISTRAR
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

Corporate Information

CAYMAN ISLANDS SHARE REGISTRAR

Estera Trust (Cayman) Limited
PO Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

PRINCIPAL BANKERS

Wing Lung Bank Ltd.
45 Des Voeux Road Central
Hong Kong

Bank of Pingdingshan Co., Ltd.
Zhengzhou Branch
1st Floor, Bank of Pingdingshan Building
No. 6 Fung Yi Road
Jinshui District, Zhengzhou City
Henan Province
China

China Construction Bank Corporation
Xichuan Branch
Middle Section, Jiefang Road
Chengguan Town, Xichuan County
Henan Province
China

SHARE INFORMATION

Date of listing: 11 July 2018
Place of incorporation: Cayman Islands
Place of listing: Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 1652
Board lot: 1000 shares
Financial year end: 31 December

COMPANY'S WEBSITE

www.fusenyy.com

Chairman's Statement

Dear Shareholders,

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.

During the reporting period, the Company continued to increase investments in research and development. In the field of chemical medicine, in addition to the varieties under the ongoing consistency evaluation, the Company continued to conduct consistency evaluation study on the selected quality varieties. Meanwhile, the Company strengthened cooperation with research institutions, focusing on enlarging the investment in the research and development of common chronic diseases such as cardiovascular and cerebrovascular diseases. In the field of Proprietary Chinese Medicine products, the Company continued to cooperate with scientific research institutions to carry out secondary research and development on the existing varieties, mainly focusing on the active ingredients of pharmaceuticals and the mechanism of efficacy, so as to facilitate the promotion of clinical applications and develop new major varieties for sale.

The Company continued to increase the recruitment of new salesmen and the assigned newly-recruited ones to the provinces and regions which are being developed with emphasis by the Company. The Company also cooperated with professional medical marketing training institutions to strengthen trainings on sales skills for sales personnel. In respect of sales channels, the Company gradually reduced cooperation with distributors with small scale and weak sales ability, and gradually made the sales channels concentrate on the hands of national or regional leading distributors. As the number of distributors decreased, sales staff could intensify the development efforts in end-user markets in order to improve the selling quality. At the same time, the Company continued to strengthen the development of OTC market based on retail pharmacies and continued to enhance cooperation with leading regional retail pharmacies. I believe that the positive impacts of the expansion of the sales team and the reform of the sales model will gradually be reflected in the second half of this year and the coming year.

Acquisition of new products: the pharmaceutical industry of China is still in a relatively dispersed state, which also provides growing space for quality companies. The Company will take advantage of the post-listing capital platform to make greater efforts in the acquisition of new products and pharmaceutical manufacturing companies, which will lay solid foundation for the long-term development of the Company.

I, hereby, would like to express my sincere gratitude on behalf of the Board to all shareholders, customers, and strategic partners for their trust and support to our Company, and my heartfelt thanks to the management team and all our staffs for their hard work. Let us join hands to continue to work for the steady growth of the Company's business.

Cao Changcheng
Chairman of the Board

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.

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%

Management Discussion and Analysis

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.

Net profit

The Group's net profit increased from approximately RMB52.4 million for the first half of 2017 to RMB53.5 million for the first half of 2018. The increase, approximately RMB1.1 million, was the net effect of (i) a 16.5% increase in gross profit as explained in the Sales Performance, Gross profit and margin section above; (ii) the increase in other net income of approximately RMB9.3 million primarily as a result of the write back of long-outstanding payables; which partly offset by (iii) the increase in selling and distribution expenses of approximately RMB14.0 million primarily as a result of increase in commission paid to our sales representatives for promoting our products; and (iv) the increase in net finance costs of approximately RMB6.0 million as we ceased to serve as a funding vehicle for our related companies and no finance income is charged to them.

Management Discussion and Analysis

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.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering in July 2018, after deduction of related issuance expenses, amounted to approximately HK$397.0 million, will be applied in the manner consistent with that set out in the Prospectus.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Disclosure of interests

As the Company was not yet listed on the Stock Exchange on 30 June 2018, the requirements of Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") and section 352 of the SFO were not applicable. Upon Listing and as the date of this report, so far as the Directors are aware, the interests or short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, are as follows.

Long position in our Shares

Name of Director	Capacity/Nature	Number of Shares held/ interested	Percentage of interest
Mr. Cao Changcheng (Notes 1, 2 and 3)	Interest of a controlled corporation	487,200,000	60.90%
Mr. Cao Dudu (Note 2)	Interest of a controlled corporation	126,840,000	15.86%
Mr. Hou Taisheng (Note 4)	Beneficiary of a trust	13,399,165	1.67%
Ms. Meng Qingfen (Note 4)	Beneficiary of a trust	11,809,433	1.48%
Mr. Chi Yongsheng (Note 4)	Beneficiary of a trust	12,944,956	1.62%

Notes:

1. Full Bliss Holdings Limited (the "Full Bliss") is wholly-owned by Mr. Cao Changcheng. As Mr. Cao Changcheng beneficially owns 100% of the issued shares of Full Bliss, Mr. Cao Changcheng is deemed to be interested in 180,180,000 Shares held by Full Bliss pursuant to the SFO.

2. Mr. Cao Dudu is the beneficial owner of the entire issued share capital of One Victory Investments Limited (the "One Victory") and is therefore deemed to be interested in the 126,840,000 Shares held by One Victory pursuant to the SFO. Furthermore, pursuant to the Second Deed of Confirmation dated August 18, 2017 entered into between Mr. Cao Changcheng, Mr. Cao Dudu and One Victory, Mr. Cao Changcheng is entrusted to exercise all voting rights attaching to the Shares owned by One Victory and direct One Victory to vote accordingly.

3. Mr. Cao Changcheng is the protector of the Fusen Trust who has the power to remove the trustee and appoint new trustee for the Fusen Trust. Mr. Cao Changcheng is also the investment manager of the Fusen Trust, who is entitled to carry out the investment and management functions of the Fusen Trust, including the exercise of all voting rights attaching to the Shares owned by Rayford Global Limited (the "Rayford") and direct the trustee of the Fusen Trust to vote accordingly. Mr. Cao Changcheng, through Full Bliss, Rayford and One Victory, is therefore interested in an aggregate of 487,200,000 Shares, representing 60.90% of our issued share capital upon completion of the Global Offering and the Capitalization Issue under the SFO (taking no account of any Shares which may be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme).

4. Each of Mr. Hou Taisheng, Mr. Chi Yongsheng, and Ms. Meng Qingfen, who is our executive Director, is a beneficiary under the Fusen Trust.

Disclosure of Interests

As the Company was not yet listed on the Stock Exchange on 30 June 2018, the requirements of Divisions 2 and 3 of Part XV of the SFO were not applicable. Upon listing and as at the date of this report, the following persons (not being a Director or chief executive of our Company) have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Our Company

Name	Capacity/Nature	Number of Shares held/interested	Percentage of interest
Full Bliss	Beneficial owner	180,180,000	22.52%
Rayford	Beneficial owner	180,180,000	22.52%
Vistra Trust (Labuan) Limited (Note 1)	Interest of a trustee	180,180,000	22.52%
Ms. Quan Xiufeng (Note 2)	Interest of spouse	487,200,000	60.90%
One Victory	Beneficial owner	126,840,000	15.86%
Ms. Zhou Rui (Note 3)	Interest of spouse	126,840,000	15.86%
China Resources Pharmaceutical (Shantou) Industry Investment Fund Partnership (LLP)	Beneficial owner	60,000,000	7.50%

Notes:

1. Vistra Trust (Labuan) Limited is a trustee of the Fusen Trust, whereby Mr. Hou Taisheng, Ms. Meng Qingfen, Mr. Fu Jiancheng, Mr. Chi Yongsheng and 43 other individuals are the beneficiaries under the Fusen Trust. As Vistra Trust (Labuan) Limited holds 100% of the issued shares of Rayford in the capacity of a trustee, Vistra Trust (Labuan) Limited is deemed to be interested in 180,180,000 Shares held by Rayford pursuant to the SFO.

2. Ms. Quan Xiufeng is Mr. Cao Changcheng's spouse and is deemed to be interested in the 487,200,000 Shares in which Mr. Cao Changcheng is interested for the purpose of the SFO.

3. Ms. Zhou Rui is Mr. Cao Dudu's spouse and is deemed to be interested in the 126,840,000 Shares in which Mr. Cao Dudu is interested for the purpose of the SFO.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the "Share Option Scheme") on 14 June 2018 (the "Adoption Date"). The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe for Shares.

Disclosure of Interests

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, our independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

Unless approval of the Shareholders in general meeting is granted, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date must not in aggregate exceed 10% of our Shares in issue as at the Listing Date. Therefore, it is expected that our Company may grant options in respect of up to 80,000,000 Shares to the participants under the Share Option Scheme.

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date unless terminated earlier by the Shareholders in general meeting.

No share option of the Company was granted since the Adoption Date and up to the date of this report.

Corporate Governance and Other Information

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 report, 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 report.

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

Since the Listing Date and up to the date of this report, 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.

Corporate Governance and Other Information

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.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2018 — unaudited

		Six months ended 30 June	
	Note	**2018**	2017 (Note)
		RMB'000	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	6	**66,394**	63,121
Income tax	7	**(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

Consolidated Statement of Profit or Loss and Other Comprehensive Income *(Continued)*

for the six months ended 30 June 2018 — unaudited

	Note	Six months ended 30 June	
		2018	2017
			(Note)
		RMB'000	RMB'000
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)	8	**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.

The accompanying notes form part of this condensed consolidated interim financial information.

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	9	**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	10	**106,842**	100,506
Trade receivables	11	**151,224**	109,115
Prepayments and other receivables		**47,130**	41,515
Restricted guarantee deposits		**8,000**	26,992
Cash and cash equivalents	12	**362,626**	474,621
		675,822	752,749
Current liabilities			
Trade and bills payables	13	**113,435**	119,698
Contract liabilities		**4,485**	–
Accruals and other payables		**214,854**	235,358
Bank loans	14	**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

Consolidated Statement of Financial Position *(Continued)*

at 30 June 2018 — unaudited

	Note	**30 June 2018**	31 December 2017 (Note)
		RMB'000	RMB'000
Non-current liabilities			
Deferred income		**4,669**	4,865
Bank loans	14	**90,000**	31,600
		94,669	36,465
Net assets		**234,711**	182,777
Capital and reserves			
Share capital	16	**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.

The accompanying notes form part of this condensed consolidated interim financial information.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2018 — unaudited

	Note	Attributable to equity shareholders of the Company								
	Note	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserves RMB'000	Other reserves RMB'000	Exchange reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity 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: 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.

The accompanying notes form part of this condensed consolidated interim financial information.

Consolidated Statement of Changes in Equity *(Continued)*

for the six months ended 30 June 2018 — unaudited

	Note	Attributable to equity shareholders of the Company								
		Share capital RMB'000	Share premium RMB'000	Statutory surplus reserves RMB'000	Other reserves RMB'000	Exchange reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity 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

The accompanying notes form part of this condensed consolidated interim financial information.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2018 — unaudited

	Six months ended 30 June	
	2018	2017
		(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.

The accompanying notes form part of this condensed consolidated interim financial information.

Notes to Unaudited Condensed Consolidated Interim 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.

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Overview *(Continued)*

	At 31 December 2017 RMB'000	Impact on initial application of IFRS 9 RMB'000	Impact on initial application of IFRS 15 RMB'000	At 1 January 2018 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.

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

IFRS 9 replaces IAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

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)

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

(i) Credit losses

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);

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

(i) Credit losses *(Continued)*

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

(i) Credit losses *(Continued)*

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

(i) Credit losses *(Continued)*

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to RMB1,470,000, which decreased retained earnings and statutory reserve by RMB1,250,000 and increased gross deferred tax assets by RMB220,000 at 1 January 2018.

(ii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

— Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IFRS 9 and thus may not be comparable with the current period.

— If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(c) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18, "Revenue", IAS 11, "Construction contracts" and IFRIC 13, "Customer Loyalty Programs".

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.

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(c) IFRS 15, Revenue from contracts with customers *(Continued)*

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.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

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".

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(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 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Cost of inventories	**123,052**	103,919
Amortisation of intangible assets	**100**	100
Depreciation of property, plant and equipment	**8,023**	8,417
Amortisation of interests in leasehold land held for own use under operating leases	**350**	350
Impairment losses of trade and other receivables	**2,608**	707

7 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

7 INCOME TAX *(Continued)*

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 30 June 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.

8 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 16.

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.

9 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).

10 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

11 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.

11 TRADE RECEIVABLES *(Continued)*

(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.

12 CASH AND CASH EQUIVALENTS

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Bank deposits	**362,626**	474,621
Cash and cash equivalents in the statement of financial position and cash flow statement	**362,626**	474,621

13 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.

14 BANK LOANS

		At 30 June 2018		At 31 December 2017	
	Note	**Effective interest rate**	**RMB'000**	Effective interest rate	RMB'000
Current					
Borrowings from banks					
— secured	(i)	**5.03–5.35%**	**140,000**	4.79–5.35%	60,000
— unsecured	(ii)	**4.57–6.09%**	**55,000**	4.57–6.09%	300,000
Total			**195,000**		360,000
Non-current					
Borrowings from banks					
— secured	(i)	**5.15%**	**90,000**		–
— unsecured	(ii)		**–**	7.02%	31,600
Total			**90,000**		31,600

14 BANK LOANS *(Continued)*

As at 30 June 2018 and 31 December 2017, the borrowings were repayable as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year or on demand	**195,000**	360,000
After 1 year but within 2 years	**90,000**	–
After 2 years but within 5 years	**–**	31,600
	285,000	391,600

(i) These borrowings were secured by the Group's property, plant and equipment and interests in leasehold land held for own use under operating leases and related party's property, plant and equipment and interests in leasehold land held for own use under operating leases. As at 30 June 2018 and 31 December 2017, loans of RMB40,000,000 and RMB40,000,000 was also guaranteed by other related parties.

(ii) These borrowings were guaranteed by third parties and/or related parties.

15 SHARE-BASED PAYMENTS

On 14 June 2018 (the "Adoption Date"), the Company adopted a share option scheme (the "Share Option Scheme"). The Share Option Scheme is valid and effective for a period of 10 years commencing on the Adoption Date unless terminated earlier by the shareholders in general meeting.

The maximum number of shares issuable upon exercise of all options to be granted under the Share Option Scheme must not in aggregate exceed 10% of 80,000,000 share, which is the expected shares of the Company in issue as at the listing date.

No option of the Company was granted to the Company's employees and other eligible participants since the Adoption Date and up to the date of this report.

16 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.

17 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.

18 COMMITMENTS

(a) Capital commitments of the Group outstanding as at 30 June 2018 and 31 December 2017 were as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Contracted for	**6,085**	4,348

(b) As at 30 June 2018 and 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within one year	**200**	228
After 1 year but within 5 years	**100**	200
Total	**300**	428

19 MATERIAL RELATED PARTY TRANSACTIONS

The Group has entered into the following material related party transactions during the six months ended 30 June 2018 and 2017:

(a) Transactions with related parties

	Note	As at 30 June 2018 RMB'000	2017 RMB'000
Purchase of goods	(i)	**4,093**	8,738
Receiving ancillary services	(ii)	**–**	1,181
Loans to related parties	(iii)	**–**	220,417
Repayment of loans by related parties	(iii)	**12,105**	334,854
Interest income on fundings to related parties	(iv)	**–**	9,807
Loan from related parties	(v)	**–**	26,461
Repayment of loans to related parties	(v)	**5,947**	32,343

Notes:

(i) Mainly represent the amount of medicinal herbs (lonicera japonica and baikal skullcap root) purchased from Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited (淅川縣福森中藥材種植開發有限公司). Purchase of medicinal herbs from Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited (淅川縣福森中藥材種植開發有限公司) are recurring transactions.

(ii) Represent amounts paid and payable to Henan Danjiang Daguanyuan Tourism Limited (河南丹江大觀苑旅遊有限公司), and Xichuan Danyangying Hotel Limited (福森藥業淅川縣丹陽迎賓館有限公司) in respect of ancillary services such as accommodation and catering.

(iii) Represent fund provided to and repaid by related parties. Some of certain loans bore interest with rate of 7.20% for the six months ended 30 June 2017. The other funds are non-interest bearing. All the funds are required to repay on demand.

(iv) Represent interest income from the interest-bearing fund provided to related parties mentioned in (iii).

(v) Represent non-interest bearing fund received from and repaid to Henan Fusen New Energy Technology Limited (河南福森新能源科技有限公司), Henan Fusen Property Service Limited (河南福森物業服務有限公司), Henan Fusen Shiye Limited (河南福森實業有限公司), Henan Danjiang Daguanyuan Tourism Limited (河南丹江大觀苑旅遊有限公司) and Xichuan Real Estate Development Limited (淅川縣福森房地產開發有限公司).

The English translation of the names is for reference only. The official names of these entities are in Chinese.

19 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Balances with related parties

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Prepayment and other receivables	**12,776**	12,477
Trade and bills payables	**–**	7,128
Accruals and other payables	**620**	6,567

Except for loans to related parties, other amounts due to or from related parties are unsecured, interest-free and repayable or receivable on demand.

(c) Financial guarantees/bank deposits balances with related parties

Financial guarantees and pledges provided to the Group in respect of banking facilities.

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Financial guarantees	**24,600**	182,200
Pledges	**78,977**	35,400

When the borrowings are guaranteed by related parties and secured by related parties' property, plant and equipment and interests in leasehold land held for own use under operating leases simultaneously, the pledges provided by related parties is based on the appraised amount of relevant assets on the pledge contracts.

20 SUBSEQUENT EVENTS

(i) On 11 July 2018, a total of 200,000,000 new shares of the Company were issued at the offering price of HK$2.08 per share, and the Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited. The net proceeds from the initial public offering, after deduction of related issuance expenses, amounted to HK$397.0 million.

(ii) On 31 August 2018, the directors of the Company proposed an interim dividends of RMB0.54 cent per ordinary share for the six months ended 30 June 2018, which has not been recognised as a liability at 30 June 2018.

21 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted.

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a impact on the consolidated financial statements. Further details of the expected impacts are discussed below.

IFRS 16, Leases

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term. IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 18, as at 30 June 2018, the Group's future minimum lease payments under non-cancellable operating leases amount to RMB300,000 for properties, which is payable either within 1 year or between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted.

The Group has started an assessment of the potential impact on its consolidated financial statements. The management assessed that the adoption of IFRS16 on 1 January 2019 would not significantly affect the financial position and performance of the Group after considering the amount of the future minimum lease payments for the lease contracts held on 30 June 2018 as disclosed above.

Independent Review Report

To the board of directors of Fusen Pharmaceutical Company Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 16 to 42 which comprises the consolidated statement of financial position of Fusen Pharmaceutical Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as of 30 June 2018 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim financial reporting, issued by International Accounting Standards Board ("IASB"). The directors are responsible for the preparation and presentation of the interim financial information in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial information and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of the interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Independent Review Report *(Continued)*

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information as at 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim financial reporting.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
31 August 2018