福森藥業有限公司

FUSEN PHARMACEUTICAL COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1652

ANNUAL REPORT 2018

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Cao Changcheng *(Chairman)*
Mr. Cao Dudu
Mr. Hou Taisheng
Ms. Meng Qingfen
Mr. Chi Yongsheng

NON-EXECUTIVE DIRECTOR

Mr. Wang Jianhang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sze Wing Chun
Mr. Lee Kwok Tung Louis (appointed on 15 April 2019)
Mr. Shang Lei (resigned on 15 April 2019)
Mr. Ho Ka Chun

AUDIT COMMITTEE

Mr. Sze Wing Chun *(Chairman)*
Mr. Ho Ka Chun
Mr. Lee Kwok Tung Louis (appointed on 15 April 2019)
Mr. Shang Lei (resigned on 15 April 2019)

NOMINATION COMMITTEE

Mr. Cao Changcheng *(Chairman)*
Mr. Ho Ka Chun
Mr. Lee Kwok Tung Louis (appointed on 15 April 2019)
Mr. Shang Lei (resigned on 15 April 2019)

REMUNERATION COMMITTEE

Mr. Lee Kwok Tung Louis
(appointed on 15 April 2019) *(Chairman)*
Mr. Shang Lei (resigned on 15 April 2019)
Mr. Cao Changcheng
Mr. Ho Ka Chun

COMPANY SECRETARY

Mr. Pang Wai Ching (appointed on 18 April 2019)
Mr. Leung Wai Fung Joseph
(resigned on 18 April 2019)

AUTHORIZED REPRESENTATIVES

Mr. Cao Dudu
Mr. Pang Wai Ching (appointed on 18 April 2019)
Mr. Leung Wai Fung Joseph
(resigned on 18 April 2019)

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

Corporate Information

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

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

LISTING INFORMATION

Date of listing: 11 July 2018
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

Financial Summary

RESULTS

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	**462,061**	452,580	441,988	368,634
Cost of sales	**(210,744)**	(200,634)	(219,799)	(195,357)
Gross profit	**251,317**	251,946	222,189	173,277
Other net income	**23,641**	5,918	10,888	3,251
Selling and distribution expenses	**(89,587)**	(90,704)	(74,208)	(63,636)
General and administrative expenses	**(49,304)**	(44,980)	(40,277)	(26,039)
Profit from operations	**136,067**	122,180	118,592	86,853
Net Finance costs	**(12,253)**	(5,844)	(3,824)	(29,585)
Profit before taxation	**123,814**	116,336	114,768	57,268
Income tax	**(21,905)**	(19,285)	(18,570)	(11,233)
Profit for the year	**101,909**	97,051	96,198	46,035

ASSETS AND LIABILITIES

	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Total assets	**1,163,262**	951,220	1,151,088	1,361,477
Total liabilities	**547,163**	768,443	1,024,479	1,167,282
Total Equity	**616,099**	182,777	126,609	194,195

Chairman's Statement

Dear Shareholders,

BUSINESS REVIEW

Fusen Pharmaceutical Company Limited (the "**Company**") and its subsidiaries (the "**Group**") are principally engaged in manufacturing and sale of pharmaceutical products.

Industry overview

In 2018, given the step-by-step implementation of a series of pharmaceutical reform policies, including "two-invoices" system, consistency evaluation of the quality and efficacy of generic drugs, establishment of the national list of adjuvant drugs and bulk buying, new competition rules have been introducing to China's pharmaceutical industry, which create new development opportunities. Such policies are likely to make a significant and structural change in drug usage in pharmaceutical industry. In future, generic drugs with proved clinical result, safety and controllable quality and reasonable price will have greater room for development; while those with doubt about its adjuvant drug, safety and efficacy will be subject to further restriction. Also, pharmaceutical retail market will enter a rapid development phase. Pharmaceutical entities, to adapt to such industry environment change, are compelled to increase investment in research and development for new products, improve product quality and restructure sales regime.

Product research and development

During the reporting period, the Group continued to increase investment in research and development. In the field of chemical medicine, in addition to the projects under the ongoing consistency evaluation, the Group strengthened cooperation with research institutions, focusing on enlarging investment in research and development on consistency evaluation of common chronic diseases such as cardiovascular and cerebrovascular diseases and diabetes. In future, the Group will increase investment in first generic drug (FGD).

In the field of proprietary Chinese medicine products, the Group kept cooperating with scientific research institutions to focus on the research of raising quality standard of its core product, Shuanghuanglian Oral Solution and Injection, so as to improve product's quality and stability. Also, the Group carried out secondary research and development for other proprietary Chinese medicine products, mainly focusing on the active ingredients of pharmaceuticals and the mechanism of efficacy, which facilitated the promotion of clinical applications and developed new major varieties for sale.

Product sales

The Group restructured sales regime to reduce cooperation with small-sized distributors with weak sales. As such, the Group gradually made the sales channels concentrating on the hands of national or regional leading distributors and those with end-sales capability. Meanwhile, the Group set up a designated department to manage the delivery of goods and collection of receivables, which helped reduce the Group's management cost and allowed other sales staff to put more efforts in marketing and promotion activities, end-sales development and interaction with consumers. With the above measures, less reliance was placed on distributors for product promotion and sales and the Group gradually strengthened its sales and promotion team. Also, the Group strove to widen sales channel in primary medical institutions and chain pharmacies in order to capture market share in over-the-counter ("**OTC**") market.

Chairman's Statement

The Group continued to increase the recruitment of new salesmen and the assigned newly-recruited team to the provinces and regions which are being developed and focused by the Group. The Group also cooperated with professional medical marketing training institutions to formulate reasonable marketing plan and strengthen trainings on sales skills for sales personnel. The directors of the Company (the "**Directors**") believe that the positive impact from the sales model reform and the expansion of sales team of the Group will gradually emerge in future.

OUTLOOK

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 11 July 2018 (the "**Listing**") by way of global offering (the "**Global Offering**"). The Directors believe that the Listing could enhance the Group's profile and recognition along with the customers' confidence on the Group. In addition, the net proceeds from the Global Offering will provide additional resources for the Group to expand its business. Even though the pharmaceutical market in China will remain under intense competition, the Group is confident that it will be able to maintain its competitiveness and expand its business.

Since its debut in the international capital market in 2018, the Company has gradually strengthened its brand promotion. In addition to traditional media channel such as television, the Group utilized new promotion channels such as high-speed rail to promote its brand and consumer awareness by highlighting its market reputation gained over the years. The Directors believes that brand establishment will secure a stable growth of the sales of the Group.

The pharmaceutical industry of China is still relatively fragmented. Given the gradual implementation of marketing authorization holder regime, there are lots of opportunities for acquisition and merger. The Company will take advantage of the post-listing capital platform to make greater efforts in acquisition of new products and pharmaceutical manufacturing companies. In terms of choice of product, the Group will concentrate on clinical essential drugs and OTC products, through which it will lay a solid foundation for the long-term development of the Company.

I, hereby, would like to express my sincere gratitude on behalf of the board of directors of the Company (the "**Board**") to the shareholders of the Company (the "**Shareholders**"), customers, and strategic partners for their trust and support to the Company, and my heartfelt thanks to the management team and 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

FINANCIAL REVIEW

Revenue

The Group's revenue increased by approximately RMB9.5 million, or 2.1%, from approximately RMB452.6 million for the year ended 31 December 2017 to approximately RMB462.1 million for the year ended 31 December 2018. The following table sets out a breakdown of the Group's revenue during the years ended 31 December 2017 and 2018 by products:

	Year ended 31 December				
	2018		2017		
	Revenue RMB'000	% of total	Revenue RMB'000	% of total	Growth rate %
Shuanghuanglian Oral Solutions (10 ml)	**194,290**	**42.0%**	190,735	42.1%	1.9%
Shuanghuanglian Oral Solutions (20 ml)	**60,947**	**13.2%**	66,798	14.8%	–8.8%
Subtotal	**255,237**	**55.2%**	257,533	56.9%	–0.9%
Shuanghuanglian Injections	**86,103**	**18.6%**	92,837	20.5%	–7.3%
Compound Ferrous Sulfate Granules	**23,257**	**5.0%**	22,808	5.0%	2.0%
Others products	**97,464**	**21.2%**	79,402	17.6%	22.7%
Subtotal	**206,824**	**44.8%**	195,047	43.1%	6.0%
Total	**462,061**	**100.0%**	452,580	100.0%	2.1%

The revenue growth of the Group was primarily driven by increase in other products, netting of the slightly decrease in Shuanghuanglian Oral Solutions and Injections.

Cost of sales

Cost of sales increased by approximately RMB10.1 million, or 5.0%, from approximately RMB200.6 million for the year ended 31 December 2017 to approximately RMB210.7 million for the year ended 31 December 2018. Such increase was generally in line with the increase in revenue.

Management Discussion and Analysis

Gross profit and gross profit margin

Gross profit remained relatively stable at approximately RMB251.3 million for the year ended 31 December 2018 as compared with approximately RMB251.9 million for the year ended 31 December 2017. The Group's gross profit margin was approximately 55.7% and 54.4% for the years ended 31 December 2017 and 2018, respectively.

During the year ended 31 December 2018, the Group recorded a slight decrease in gross profit margin for the increase in procurement cost in raw material.

Other net income

Other net income primarily consists of net material and scrap income, rental income, government grants, write-off long-outstanding payables and others. The other net income increase by approximately RMB17.7 million to approximately RMB23.6 million for the year ended 31 December 2018 from that of 2017, primarily due to the increase in government grants and write-off of long-outstanding payables, netting of the decrease in financial guarantee issued.

General and administrative expenses

General and administrative expenses primarily consist of wages and salaries, consultant, research and development cost, depreciation, credit losses and others. The general and administrative expenses increase by approximately RMB4.3 million, or 9.6%, from approximately RMB45.0 million for the year ended 31 December 2017 to approximately RMB49.3 million for the year ended 31 December 2018, mainly represented by the approximately RMB7.9 million increase in research and development expenses on quality and efficacy consistency evaluation of generic drugs, offsetting by the approximately RMB2.4 million decrease in entertainment and other miscellaneous expenses due to strengthened cost control measure.

Income tax

Income tax primarily represents income tax payable by the Group under relevant PRC income tax rules and regulations. Henan Fusen Pharmaceutical Company Limited, a subsidiary of the Company, was certified as a High New Technology Enterprise in Henan province and has been entitled to a preferential income tax rate of 15%. The effective tax rate of the Group was 16.6% and 17.7% in 2017 and 2018 respectively. The increase was primarily attributable to the provision for PRC withholding tax on dividend from Henan Fusen Pharmaceutical Company Limited.

Profit for the year

As a result of the foregoing, the profit for the year increased by approximately RMB4.8 million, or 4.9%, from approximately RMB97.1 million for the year ended 31 December 2017 to approximately RMB101.9 million for the year ended 31 December 2018. The net profit margin which is calculated as the net profit divided by the revenue for the years ended 31 December 2017 and 2018 were approximately 21.4% and 22.1%, respectively.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had net current assets of approximately RMB432.8 million (2017: RMB20.8 million) and cash and cash equivalents of approximately RMB561.1 million (2017: RMB474.6 million).

As at 31 December 2018, the Group's total equity attributable to equity shareholders of the Company amounted to approximately RMB613.9 million (2017: RMB180.6 million), and the Group's total debt amounted to approximately RMB190.0 million (2017: RMB391.6 million). The Directors have confirmed that the Group will have sufficient financial resources to meet its obligations as they fall due in the foreseeable future.

GEARING RATIO

As at 31 December 2018, the gearing ratio of the Group, which is calculated as the total debt divided by the total equity, was approximately 30.8% (2017: 214.3%).

CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2018 and 2017 not provided for in the financial statements were as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Contracted for	**2,784**	4,348
Total	**2,784**	4,348

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2018.

INFORMATION ON EMPLOYEES

As at 31 December 2018, the Group employed 1,244 employees (2017: 1,356 employees). Employees are remunerated based on their qualifications, position and performance. The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's and individual's performance.

For the year ended 31 December 2018, the total staff cost (including Directors' emoluments, contributions to defined contribution retirement schemes, bonus and other benefits) amounted to approximately RMB103.5 million (2017: RMB129.0 million).

Management Discussion and Analysis

COMPARISON OF BUSINESS STRATEGIES WITH ACTUAL BUSINESS PROGRESS

The shares of the Company were listed on the Main Board of the Stock Exchange on 11 July 2018. The Group is in its preliminary stage of implementing its business objectives and strategies as disclosed in the prospectus of the Company dated 28 June 2018 (the "**Prospectus**") and will strive to achieve the milestone events as stated in the Prospectus.

The following sets out a comparison of the business strategies as stated in the Prospectus with the Group's actual business progress and up to the date of this report.

Business strategies as stated in the Prospectus	Actual business progress up to the date of this report
Establishment of production facilities, warehouse, processing facilities	During the reporting period, the Group upgraded and optimized certain existing equipment. The Group is in the process of acquisition of land has obtained confirmation from Xichuan County Public Resources Trading Center (淅川縣公共資源交易中心) and notice at tendering, auction and listing of state-owned land use right has been issued by Xichuan County Land and Resources Bureau (淅川縣國土資源局).
Advertising and marketing of the Group's products	Since its debut in the international capital market in 2018, the Group has gradually strengthened brand promotion through media channel such as TV to highlight its market reputation gained over the years.
Expansion of distribution and marketing network	During the reporting period, the Group adjusted the sales regime by setting up a designated department to manage distributors in order to focus on improving the efficiency of delivery of goods and collection of receivables. Meanwhile, the Group started to set up its own sales team to strengthen the development and management of medical institutions and chain pharmacies to gradually develop end-sales market.
Research and development activities	In the field of proprietary Chinese medicine products, the Group kept investing in research and development to focus on raising quality standard of its core product. As for other proprietary Chinese medicine products, the Group mainly focused on the mechanism of efficacy and effect. Also, the Group invested in research on consistency evaluation.
Potential merger and acquisition	The Group conducted extensive and in-deep research on target firm or project and did not enter into any formal acquisition agreement during the reporting period.

Business strategies as stated in the Prospectus	Actual business progress up to the date of this report
Acquisition of production permits of new types of products	The pharmaceutical industry of China is still relatively fragmented. Given the gradual implementation of marketing authorization holder regime, there are lots of opportunities for acquisition and merger. The Group will take advantage of the post-listing capital platform to make greater efforts in acquisition. In terms of choice of product, the Group will concentrate on clinical essential drugs and OTC products. During the reporting period, the Group did not enter into any formal acquisition agreement.
Working capital and general corporate purposes	Items for replenishment of working capital of the Group mainly represent the listing expense and other professional service charge.

USE OF PROCEEDS

The net proceeds from the Global Offering (after deducting the underwriting fees and other listing expenses borne by the Company) amounted to approximately HKD397.0 million (the "**Actual Net Proceeds**") which will be used for the intended purposes as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

The table below sets out an allocation and the actual use of the Actual Net Proceeds as follows:

Business strategies as set out in the Prospectus	%	The Actual Net Proceeds HK$ million	Actual use of the Actual Net Proceeds as at date of this report HK$ million
Establishment of production facilities, warehouse, processing facilities which are expected to be in full use in 2020	*30%*	119.0	–
Advertising and marketing of the Group's products	*10%*	39.7	8.7
Expansion of distribution and marketing network	*10%*	39.7	4.2
Research and development activities	*10%*	39.7	5.2
Potential merger and acquisition	*15%*	59.6	–
Acquisition of production permits of new types of products	*15%*	59.6	–
Working capital and general corporate purposes	*10%*	39.7	23.5
	100%	397.0	41.6

TREASURY POLICY

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

CAPITAL STRUCTURE

The Company's shares were successfully listed on the Main Board of the Stock Exchange on 11 July 2018. There has been no change in the capital structure of the Group since then. The capital of the Group only comprises of ordinary shares.

CHARGE ON GROUP ASSETS

Certain of the Group's bank borrowings were secured by the Group's property, plant and equipment and land use rights, which had an aggregate carrying amount of RMB92.3 million and RMB79.7 million as at 31 December 2017 and 2018, respectively.

FOREIGN EXCHANGE EXPOSURE

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.

MATERIAL ACQUISITION AND DISPOSAL

Save as disclosed in the Prospectus and below, during the year ended 31 December 2018 and up to the date of this report, the Group did not perform any material acquisition or disposal of subsidiaries and associates.

EVENT AFTER THE REPORTING PERIOD

On 1 February 2019, Cloud Dollar Investments Limited (衡盛投資有限公司), a wholly-owned subsidiary of the Company, ("**Cloud Dollar**"), Beijing Sanye Mingming Pharmaceutical Technology Company Limited (北京三也明明醫藥科技有限公司), a company established in the PRC with limited liability (the "**Target Company**"), and Zhang Qianquan (張淺淺) and Xu Boda (許博達), who are the shareholders of the Target Company previously holding 50% and 50% of the equity interest of the Target Company respectively (the "**Covenantors**"), entered into a capital injection agreement (the "**Capital Injection Agreement**"), pursuant to which Cloud Dollar agreed to inject a capital of RMB26.0 million by way of cash contribution into the Target Company (the "**Capital Injection**").

Upon completion of the Capital Injection, the Target Company will be held as to 50% by the Covenantors and 50% by Cloud Dollar and the total registered capital of the Target Company will increase from RMB1.0 million to RMB10.0 million.

The Capital Injection is intended to further the collaboration with external institutions on product development project to supplement the Group's research and development efforts and broaden the product offering to capture potential market demand.

Biographical Details of Directors, Senior Management and Company Secretary

DIRECTORS OF THE COMPANY

Executive Directors

Mr. Cao Changcheng (曹長城先生), aged 62, is an executive Director, the chairman of the Board and the founder of the Group. Mr. Cao is one of the Controlling Shareholders of the Company (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**")) and also a director of a wholly-owned subsidiary of the Company, Henan Fusen Pharmaceutical Company Limited (河南福森藥業有限公司) ("**Henan Fusen**"). Mr. Cao is primarily responsible for the formulation of overall business development strategy and major business decision of the Group. He has over 18 years of experience in the pharmaceutical industry. Prior to joining the Group, Mr. Cao was the general manager of Henan Xichuan Pharmaceutical Group Company Limited (河南淅川製藥集團有限公司) ("**Henan Xichuan Pharmaceutical**"), a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from November 2000 to October 2003.

Under the leadership of Mr. Cao, Henan Fusen successfully developed Shuanghuanglian Oral Solutions and Shuanghuanglian Injections and they have become our major products since 2004. Henan Fusen also obtained the GMP certifications for five dosage forms, including small volume injection, oral solution, tablet, capsule and granule (including pre-treatment and extraction of traditional Chinese medicine) in 2008. Mr. Cao's innovation also led to the establishment of the Henan Province Microencapsulation Technology Research Centre (河南微囊化藥物工程技術研究中心) in 2012 and Henan Fusen was recognized by the Henan Department of Science and Technology (河南省科學技術廳) as a High New Technology Enterprise (高新技術企業) in 2015.

Mr. Cao obtained a graduation certificate of the major of Economic Administration from Northeastern University (東北大學) in July 2000 through long distance learning. He was awarded a Certificate of the completion of Advance Course in Business Development Strategy and Innovative Operation Skills (企業戰略與創新經營高級研修班) by Tsinghua University (清華大學) in October 2014 through long distance learning.

Mr. Cao has been a member of the 12th People's Congress of Henan Province (第12屆河南省人民代表大會委員) since January 2013.

Mr. Cao is the father of Mr. Cao Dudu who is an executive Director and the chief executive officer of the Company.

Mr. Hou Taisheng (侯太生先生), aged 56, is an executive Director of the Company. Mr. Hou joined the Group in October 2003 as a director and vice president of Henan Fusen. Mr. Hou is primarily responsible for general management and overseeing the sales and marketing of the Group. He has over 17 years of experience in the pharmaceutical industry in the PRC. Prior to joining the Group, Mr. Hou was the deputy general manager of Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from March 2002 to October 2003.

He was also a sales representative in charge of the sales and marketing of our products in Nanyang city and Henan Province from 2003 to 2007. Under the leadership of Mr. Hou, Henan Fusen has developed extensive nationwide sales and distribution network covering each of the 31 provinces, autonomous regions and centrally administered municipalities in the PRC since 2016.

Mr. Hou obtained an Associate Degree of Business Administration from the Party School of the Henan Provincial Committee of CPC (河南省委黨校) in July 1982 through long distance learning.

Biographical Details of Directors, Senior Management and Company Secretary

Mr. Chi Yongsheng (遲永勝先生), aged 57, is an executive Director. Mr. Chi joined the Group in October 2003 as a director and vice president of Henan Fusen. Mr. Chi is primarily responsible for overseeing the financial operation of the Group. He has over 21 years of experience in the pharmaceutical industry in PRC. Prior to joining the Group, Mr. Chi worked in Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from 1995 to October 2003. Mr. Chi was responsible for the audit work in Henan Xichuan Pharmaceutical and he was promoted to manage the finance department in 2000.

Mr. Chi obtained an Associate Degree of Business Management from the Henan Agricultural University (河南農業大學) in July 1994 through an off-the-job learning programme.

Ms. Meng Qingfen (孟慶芬女士), aged 54, is an executive Director. Ms. Meng joined the Group in October 2003 as a director and vice president of Henan Fusen. Ms. Meng is primarily responsible for overseeing the research, development and quality control of our products and the production of the Group. She has over 24 years of experience in the pharmaceutical industry in the PRC. Prior to joining the Group, Ms. Meng worked in Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from 1988 to October 2003 with her latest position as deputy general manager. Ms. Meng was the supervisor of the production line for extraction of traditional Chinese medicine (提取車間) in 1993 and she was also in charge of the quality control system in 1998 during her time in Henan Xichuan Pharmaceutical. Ms. Meng has been the head of the Group's production house since 2003 responsible for ensuring the safety and quality of the Group's products. With her help, Henan Fusen was able to obtain the GMP certifications for five dosage forms, including small volume injection, oral solution, tablet, capsule and granule (including pre-treatment and extraction of traditional Chinese medicine) in 2008. Ms. Meng has also been appointed as the head of our Group's research and development team in 2013 to strengthen our research and development effort and broaden our product offering.

Ms. Meng obtained a Diploma in Animal Husbandry from Zhengzhou Animal Husbandry and Veterinary College (鄭州畜牧獸醫專科學校) in July 1986 and an Associate Degree of Pharmacy from the Pharmaceutical College of Henan University (河南大學藥學院) in July 2006 through long distance learning.

Biographical Details of Directors, Senior Management and Company Secretary

Mr. Cao Dudu (曹篤篤先生), aged 33, is an executive Director and the chief executive officer of the Company who is primarily responsible for the general management, supervising day-to-day operation, overseeing the investor relations and advising on corporate strategy of the Group. Mr. Cao joined the Group in January 2013 as a Director of the Company and in March 2013 as an executive assistant of the chairman of the board of Henan Fusen. He has over 9 years of working experience in securities and corporate finance. Mr. Cao's previous working experience includes the following:

Name of companies	Principal business activities	Latest position	Period of services
Essence International Securities (Hong Kong) Limited (安信國際證券(香港)有限公司)	Dealing in and advising on securities	Licensed representative (dealing in securities and futures contracts)	July 2012–February 2013
Haitong International Securities Group Limited (海通國際證券集團有限公司) (stock code: 665)	Dealing in and advising on securities; leveraged foreign exchange trading	Licensed representative (dealing in securities and futures contracts)	April 2010–June 2012
Haitong Securities (HK) Brokerage Limited (海通證券(香港)經紀有限公司)	Dealing in and advising on futures contracts and securities	Licensed representative (dealing in securities and futures contracts)	March 2010–May 2011
Okasan International (Asia) Limited (岡三國際(亞洲)有限公司)	Dealing in futures contracts and securities; advising on securities and corporate finance; asset management	Licensed representative (dealing in securities and futures contracts)	March 2009–December 2009
Core Pacific-Yamaichi Securities (H.K.) Limited (京華山一國際(香港)有限公司)	Dealing in and advising on securities; advising in corporate finance; providing automated trading service; asset management	Licensed representative (dealing in securities and futures contracts)	August 2007–February 2009

Mr. Cao obtained a Bachelor of Business Administration in Business Economics from the City University of Hong Kong (香港城市大學) in November 2007 and a master degree of Science in Finance from the Chinese University of Hong Kong (香港中文大學) in November 2012. Mr. Cao had also obtained licenses for carrying on type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities under the SFO for his employers during the period from August 2007 to February 2013.

Mr. Cao is the son of Mr. Cao Changcheng who is our executive Director and the chairman of the Board.

Biographical Details of Directors, Senior Management and Company Secretary

Non-Executive Director

Mr. Wang Jianhang (王建航先生), aged 36, is a non-executive Director who is primarily responsible for participating in the Company's decision making on major matters such as operational strategies. Mr. Wang has over 14 years of working experience in the financing, investment and merger & acquisitions projects in pharmaceutical companies. He is currently the executive general manager of China Resources Pharmaceutical Industrial Investment Fund LLP. Mr. Wang's previous working experience includes the following:

Name of companies	Principal business activities	Latest position	Period of services
Hanmi Pharm Company Limited (北京韓美藥品有限公司)	Pharmaceutical product development and manufacturing	Business Development Supervisor and Strategic Manager	July 2010–July 2012
Huaxipharm Company Limited (北京華禧聯合科技有限公司)	Pharmaceutical product development	Enterprise Development Manager	October 2005–July 2010
Beijing Zhongfeng Tianheng Pharmaceutical Technology Development Company Limited (北京中豐天恒醫藥技術開發有限公司)	Pharmaceutical product development	Marketing Specialist	July 2004–September 2005

Mr. Wang graduated from Beijing University of Chinese Medicine (北京中醫藥大學) with a Bachelor of Science degree in the major of Chinese Medicine and obtained a graduation certificate in the minor of Business Administration in June 2004.

Independent Non-Executive Directors

Mr. Sze Wing Chun (施永進), aged 42, was appointed as an independent non-executive Director on 14 June 2018.

Mr. Sze obtained a Bachelor of Business Administration in Accounting from the Hong Kong University of Science and Technology in November 1998. He has been a member of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) since October 2002 and became a fellow member in May 2017. He has also been a fellow member of the Association of Chartered Certified Accountants since October 2006. Mr. Sze worked at Deloitte Touche Tohmatsu, an international CPA firm from September 1998 to November 2011 and worked at Crowe Horwath (HK) CPA Limited, an international CPA firm from February 2012 to February 2017. He is currently a director of Ascenda Cachet CPA Limited, a CPA firm in Hong Kong. Mr. Sze has over 18 years of experience in auditing, accounting and taxation.

Biographical Details of Directors, Senior Management and Company Secretary

Mr. Shang Lei (尚磊先生), aged 40, was appointed as an independent non-executive Director on 14 June 2018. Mr. Shang has over 10 years of experience in the pharmaceutical industry. Mr. Shang is experienced in the operation of the pharmaceutical and capital markets, and participated in merger & acquisitions, investment and financing projects of quite a number of listed or proposed-listing pharmaceutical companies.

Mr. Shang obtained a Bachelor of Finance from the Xi'an Jiao Tong University (西安交通大學) in July 2001 and a master degree of International Business and Finance from the University of Reading in July 2003.

From June 2008 to June 2011, Mr. Shang had been a director and the secretary of the board of Harbin Gloria Pharmaceuticals Co. Ltd (哈爾濱譽衡藥業股份有限公司), a China-based company listed on Shenzhen Stock Exchange (stock code: 2437.SZ) which principally carries on the business of medicine researches, production and sales. Since June 2011, Mr. Shang has been a director of Tibet Aim Pharm. Inc. (西藏易明西雅醫藥科技股份有限公司), a Chinabased company listed on Shenzhen Stock Exchange (stock code: 2826.SZ) which principally carries on the business of manufacture and distribution of chemical drugs and Chinese patent medicine.

Mr. Shang tendered his resignation as an independent non-executive Director with effect from 15 April 2019 due to his own business commitments. He also ceased to be the chairman of the Remuneration Committee, member of each of the Audit committee and the Nomination committee of the Company upon his resignation. Mr. Shang will be redesignated as a consultant to the Board. Mr. Shang has confirmed that he has no disagreement with the Board and there is no matter relating to his resignation that needs to be brought to the attention of the Shareholders or the Stock Exchange.

Mr. Lee Kwok Tung Louis (李國棟先生), aged 51, was appointed as an independent non-executive Director on 15 April 2019. Mr. Lee graduated from Macquarie University in Australia with a Bachelor of Economics in 1992. He was admitted as a Certified Practising Accountant of the CPA Australia in June 1996 and a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants ("**HKICPA**") in October 1999. Mr. Lee is currently a Fellow Certified Practising Accountant of the CPA Australia and a Fellow Certified Public Accountant of HKICPA. Mr. Lee has over 26 years of experience with unlisted groups, listed groups and professional firms in finance, accounting and auditing.

Mr. Lee is currently an independent non-executive Director of CGN Mining Company Limited (listed on the Main Board of the Stock Exchange, stock code: 1164), Worldgate Global Logistics Ltd. (listed on GEM of the Stock Exchange, stock code: 8292), Windmill Group Limited (listed on the Main Board of the Stock Exchange, stock code: 1850), China Singyes New Materials Holdings Limited (listed on GEM of the Stock Exchange, stock code: 8073) and Redsun Properties Group Limited (listed on the Main Board of the Stock Exchange, stock code: 1996).

Mr. Lee was also an independent non-executive Director of Winto Group (Holdings) Limited (listed on GEM of the Stock Exchange, stock code: 8238) from 23 January 2015 to 9 May 2016 and Zhong Ao Home Group Limited (listed on the Main Board of the Stock Exchange, stock code: 1538) from 5 November 2015 to 5 July 2017.

Mr. Lee has entered into a service agreement with the Company for a fixed term of three years commencing from 15 April 2019 and may be terminated in accordance with its terms and his appointment is subject to (i) re-election at the forthcoming AGM; and (ii) retirement by rotation and re-election in accordance with the Articles of Association. Pursuant to his service agreement, Mr. Lee was entitled to an annual remuneration of HK$180,000 for his appointment, which is determined by the Board with reference to his duties and responsibilities, the prevailing market conditions and the recommendation from the Remuneration Committee.

Save as disclosed above, to the best of the knowledge of the Directors having made all reasonable enquiries, (i) Mr. Lee has not held any other directorships in the last three years in any listed public company in Hong Kong or overseas; (ii) Mr. Lee does not or is not deemed to have any interests or short positions in any Shares, underlying Shares or debentures (as defined under Part XV of the SFO) of the Company; (iii) Mr. Lee does not have any relationship with the Directors, senior management or substantial or controlling shareholders of the Company; (iv) Mr. Lee does not hold any other position with the Company or its subsidiaries; and (v) there is no other information relating to Mr. Lee that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, nor are there any other matters concerning Mr. Lee that needs to be brought to the attention of the Shareholders.

Mr. Ho Ka Chun (何家進先生), aged 38, was appointed as an independent non-executive Director on 14 June 2018. Mr. Ho has over 11 years of experience in professional auditing and is experienced in investors relationship management, mergers & acquisitions and overseas financing. Mr. Ho is currently an independent non-executive director of Bao Shen Holdings Limited (listed on GEM of the Stock Exchange, stock code: 8151). Mr. Ho's previous working experiences include the following:

Name of companies	Principal business activities	Latest position	Period of services
China Tontine Wines Group Limited (listed on the Main Board of the Stock Exchange, stock code: 389)	Manufacturing and sale of wine products	Chief Financial Officer	January 2016–July 2018
Deloitte Touche Tohmatsu Certified Public Accountants LLP Guangzhou Branch	Professional accounting and auditing services	Senior Manager	January 2013–December 2015
Deloitte Touche Tohmatsu	Professional accounting and auditing	Manager	August 2004–December 2012

Mr. Ho obtained a Bachelor of Business Administration (Professional Accountancy) from the Chinese University of Hong Kong (香港中文大學) in 2004. He is a member of the Hong Kong Institute of Certified Public Accountants.

Biographical Details of Directors, Senior Management and Company Secretary

SENIOR MANAGEMENT

Mr. Leung Wai Fung Joseph (梁偉峰先生), aged 48, was appointed as the company secretary and chief financial officer of the Company in January 2017. Mr. Leung is responsible for overseeing the Group's overall financial accounting and corporate governance matters. He has over 22 years of experience in audit and accounting. His previous working experience includes the following:

Name of companies	Principal business activities	Latest position	Period of services
Hailan Holdings Limited (海藍旅遊控股有限公司) (stock code: 2278)	Property developer	Chief Financial Officer and Company Secretary	September 2015– September 2016
China Agri-industries Holdings Limited (中國糧油控股有限公司) (stock code: 606)	Production and supply of processed agricultural products	Head of Internal Audit Department (Beijing headquarters)	December 2007– February 2014
COFCO Biochemical (AnHui) Co., Ltd. (中糧生物化學(安徽)股份有限公司) (and formerly AnHui BBCA Biochemical Co., Ltd (安徽豐原生物化學股份有限公司) (stock code: 0930.SZ)	Manufacturer of citric acid, citrate products, related by products and cooking oil	Member of the 5th Supervision Committee	January 2011– January 2014
Wing Tai Properties Limited (永泰地產有限公司) (and formerly USI Holdings Limited (富聯國際集團有限公司) (stock code: 369)	Apparel manufacturer and property developer	Internal Audit Manager	January 2006– December 2007
PricewaterhouseCoopers	Accounting and auditing services	Senior Manager	February 1997– July 2005

Mr. Leung obtained a Bachelor of Commerce from the Concordia University, Canada in May 1997. He has been a Certified Public Accountant accredited by the Washington State Board of Accountancy, the American Institute of Certified Public Accountants (AICPA) and the Hong Kong Institute of Certified Public Accountants since April 2002, May 2002 and January 2003 respectively. Mr. Leung has later became a Fellow Certified Public Accountant (FCPA) on May 2013 in Hong Kong. In August 2012, Mr. Leung completed Advanced Course in Enterprise Risk Quantitative Analysis Research (企業風險量化分析高級研修班) from Peking University and became a Certified Enterprise Risk Manager in PRC as recognized by the Asia Association of Risk and Crisis Management in February 2014. Further in June 2015, Mr. Leung became a member of the Hong Kong Business Accountants Association.

Biographical Details of Directors, Senior Management and Company Secretary

Mr. Leung tendered his resignation as the company secretary and chief financial officer with effect from 18 April 2019. He also ceased to be an authorised representative of the Company as required under Rule 3.05 of the Listing Rules upon his resignation. Mr. Leung has confirmed that he has no disagreement with the Board and there is no matter relating to his resignation that needs to be brought to the attention of the shareholders of the Company and the Stock Exchange.

Mr. Li Zhen (李鎮先生), aged 41, was appointed as the chief financial officer of the Company on 18 April 2019. He is responsible for overseeing the Group's overall financial accounting.

Mr. Li is a member of the Chinese Institute of Certified Public Accountants and Association of Chartered Certified Accountants. He obtained a Bachelor of Management in Accountancy from Central University of Finance and Economics (中央財經大學). Mr. Li has over 18 years of experience in accounting, auditing and finance. He started his career at KPMG Huazhen from September 2000 to April 2010 with his last position as Senior Manager. He had been the financial controller in Beijing BOE Vision-Electronic Technology Company Limited (北京京東方視迅科技有限公司) and the chief financial officer in Shenzhen Aishide Company Limited (深圳市愛施德股份有限公司). He had served as the chief financial officer in Evercare (Beijing) Holding Group Company Limited (伊美爾(北京)控股集團股份公司) from May 2016 to July 2017. Prior to joining our Group in April 2019, he served as an assistant financial controller in Dr. Peng Telecom & Media Company Limited (鵬博士電信傳媒集團股份有限公司) from July 2017 to April 2018.

Mr. Fu Jiancheng (付建成先生), aged 60, is the vice president of the Company. Mr. Fu joined the Group in October 2003 as a supervisor of Henan Fusen. Mr. Fu is primarily responsible for the human resources and administrative management of the Group. He has over 15 years of experience in the pharmaceutical industry in PRC.

Mr. Fu obtained an Associate Degree of Sales Management from the Henan Institute of Coal Industry Management (河南煤炭管理幹部學院) in July 1980 through long distance learning.

COMPANY SECRETARY

Mr. Leung Wai Fung Joseph was the company secretary of the Group until his resignation with effect from 18 April 2019. Details of his qualifications and experience are set out in the paragraph headed "Senior Management" above in this section.

Mr. Pang Wai Ching (彭偉正先生), aged 30, was appointed as the company secretary and an authorised representative (as defined in the Listing Rules) of the Company on 18 April 2019. Mr. Pang is a member of the Hong Kong Institute of Certified Public Accountants. He obtained a Bachelor of Business Administration in Accountancy from City University of Hong Kong. Mr. Pang has over 8 years of experience in accounting, auditing and company secretarial matters.

Mr. Pang joined KPMG in October 2010 and left the firm in November 2014 with his last position as an assistant manager. He served as assistant manager of group internal audit department of Melco Services Limited between November 2014 and September 2015. Mr. Pang rejoined KPMG in October 2015 and left the firm in July 2017 with his last position as a manager. He then worked as the financial controller of Golden Bright Hong Kong Group Limited (金輝香港集團有限公司) from July 2017 to April 2018. He is currently a director of Techson Management Limited (德承管理有限公司).

Corporate Governance Report

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 "**CG Code**") as set out in Appendix 14 to the Listing Rules. Since the date of the listing of the shares of the Company on the Main Board of the Stock Exchange on 11 July 2018 (the "**Listing Date**") and up to the date of this report, the Company has complied with all applicable code provisions set out in the CG Code.

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.

NON-COMPETITION UNDERTAKING

During the period from the Listing Date to 31 December 2018, none of the Directors nor their respective associates (as defined in the Listing Rules) had any interest in a business that competed or might compete with the business of the Group.

Each of the Controlling Shareholders, Mr. Cao Changcheng and Full Bliss Holdings Limited, has confirmed to the Company of his or its compliance with the non-competition undertakings provided to the Company under a deed of non-competition dated 14 June 2018 (the "**Deed of Non-competition**"). The independent non-executive Directors (the "**INED(s)**") have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-competition had been complied with by the above-mentioned parties and duly enforced since the Listing Date and up to 31 December 2018.

ROLE AND FUNCTION OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company overseeing the Group's businesses, strategic decisions, risk management, internal control systems and performance. The Board is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors make decisions objectively in the interests of the Company and its Shareholders.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Board reserves for its decision on all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

DIRECTORS' RESPONSIBILITIES

The Board takes the responsibility to oversee all major matters of the Company, including but not limited to formulating and approving the overall strategies and business performance of the Company, monitoring the financial performance and internal control as well as overseeing the risk management system of the Company and monitoring the performance of senior executives. The Board is also responsible for performing the corporate governance duties including the development and reviewing the Company's policies and practices on corporate governance.

Liability insurance for the Directors and senior management officers of the Company was maintained by the Company with coverage for any legal liabilities which may arise in the course of performing their duties.

The Directors acknowledge their responsibility for preparing the Company's consolidated financial statements for the year ended 31 December 2018. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

COMPOSITION

The composition of the Board as at the date of this report is set out as follows:

Executive Directors

Mr. Cao Changcheng *(Chairman)*
Mr. Cao Dudu
Mr. Hou Taisheng
Ms. Meng Qingfen
Mr. Chi Yongsheng

Non-executive Director

Mr. Wang Jianhang

Independent Non-executive Directors

Mr. Sze Wing Chun
Mr. Lee Kwok Tung Louis (appointed on 15 April 2019)
Mr. Shang Lei (resigned on 15 April 2019)
Mr. Ho Ka Chun

Biographical details of the Directors are set out in the section headed "Biographical Details of Directors, Senior Management and Company Secretary" of this report.

The proportion of INEDs complies with the requirement as set out in the Rules 3.10(1) and (2), and 3.10A of the Listing Rules whereby independent non-executive Directors of a listed issuer represent at least one-third of the board of directors. The three INEDs represent one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. With the various experience of both the executive Directors, non-executive Director and INEDs and the nature of the Group's business, the Board considered that the Directors have a balance of skills and experience for the business of the Group.

The Company has received an annual confirmation of independence from each independent non-executive Director and the Company considers such Directors to be independent in accordance with the criteria set out in Rule 3.13 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. The positions of chairman and chief executive officer of the Company are held by Mr. Cao Changcheng and Mr. Cao Dudu, respectively. The chairman provides leadership for the Board and is responsible for formulation of overall business development strategy and major business decision of the Group. The chief executive officer focuses on general management and day-to-day operation, oversees the investor relations and advise on corporate strategy of the Group. Their respective responsibilities are clearly defined and set out in writing.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

On 15 April 2019, Mr. Shang Lei resigned as an independent non-executive Director and ceased to be the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee due to his own business commitments. On the same day, Mr. Lee Kwok Tung Louis ("**Mr. Lee**") was appointed by the Board as an independent non-executive Directors, the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee. Mr. Lee has entered into a service contract with the Company for an initial term of three years commencing from 15 April 2019 subject to re-election at the forthcoming annual general meeting of the Company to be held on 28 June 2019 (the "**AGM**"). Save for Mr. Lee, each of the executive Directors, non-executive Director and independent non-executive Directors has entered into a service contract with the Company on 16 June 2018 for an initial term of three years commencing from the Listing Date. The service contracts of the Directors are subject to termination in accordance with their respective terms and may be renewed in accordance with the memorandum and articles of association of the Company and the applicable Listing Rules.

According to article 108 of the Company's memorandum and articles of association, one-third of the Directors for the time being shall retire from office by rotation at every annual general meeting of the Company, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Article 112 of the Company's memorandum and articles of association provides that any Directors who are appointed by the Board to fill casual vacancies shall hold office only until the first general meeting of the Company after their appointment, and are subject to re-election by Shareholders.

Each of Mr. Chi Yongsheng, Ms. Meng Qingfen and Mr. Ho Ka Chun will retire from office as Directors at the AGM. Mr. Lee was appointed as an independent non-executive Director by the Board on 15 April 2019 and shall hold office until the forthcoming AGM. As such, Mr. Chi Yongsheng, Ms. Meng Qingfen, Mr. Ho Ka Chun and Mr. Lee, being eligible, will offer themselves for re-election.

According to the Listing Rules and the board diversity policy (the "**Board Diversity Policy**") adopted by the Company on 14 June 2018, the Nomination Committee will, among other things, undertake the nomination and selection of the independent non-executive Director candidates on the completion of his specified terms, and make relevant recommendations to the Board.

Furthermore, when changes to the members or composition of the Board or its Committees are required or when casual vacancies arise, the Nomination Committee shall adhere to the principles stated in the Board Diversity Policy and take into account the existing composition of the Board and its Committees, as well as the business requirements of the Group, and nominate potential candidates by reference to their capacity and the selection criteria to the Board for approval.

Mr. Ho Ka Chun and Mr. Lee have met the independence criteria under the Listing Rules. Moreover, each of Mr. Ho Ka Chun and Mr. Lee have given confirmation of independence to the Company. With due consideration on the above factors, the Board believes that Mr. Ho Ka Chun and Mr. Lee are independent.

Biographical details of Mr. Chi Yongcheng, Ms. Meng Qingfen, Mr. Ho Ka Chun and Mr. Lee are set out in the section headed "Biographical Details of Directors, Senior Management and Company Secretary" of this report. Based on their diversified background including, but not limited to, gender, age, cultural and educational background, professional experience, talents, skills, knowledge, length of service and other qualities of Directors, the Board believes that (i) Mr. Chi Yongcheng, Ms. Meng Qingfen, Mr. Ho Ka Chun and Mr. Lee can contribute to diversity of the Board; and (ii) their expertise will enable them to fulfill their roles as executive Director or independent non-executive Director effectively, and provide useful and constructive opinion and make contribution to the Board and the development of the Company.

Having considered the above aspects and in view of the contribution that Mr. Chi Yongcheng, Ms. Meng Qingfen, Mr. Ho Ka Chun and Mr. Lee are able to make to the Board, their re-election will be in the best interests of the Company and its shareholders as a whole.

At the AGM, separate ordinary resolutions will be put forward to the Shareholders in relation to the proposed re-election of Mr. Chi Yongsheng as an executive Director, Ms. Meng Qingfen as an executive Directors, Mr. Ho Ka Chun as an independent non-executive Director and Mr. Lee as an independent non-executive Director.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

In compliance with the code provision A.6.5 of the CG Code, all Directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure that they keep abreast of the current requirements. The Company has arranged regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

The Group has also provided reading materials including the CG Code, the Inside Information Provision (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to all Directors to develop and refresh the Directors' knowledge and skills.

The Group continuously updates the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, so as to ensure that the Directors are aware of their responsibilities and obligations as well as to maintain good corporate governance practices.

BOARD COMMITTEES

The Board has established three Board committees, namely, the audit committee (the "**Audit Committee**"), the nomination committee (the "**Nomination Committee**") and the remuneration committee (the "**Remuneration Committee**"), for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the Stock Exchange's website at "www.hkexnews.hk" and the Company's website at "www.fusenyy.com". All Board committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the Board meetings set out above.

All Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

Audit Committee

The Company established the Audit Committee on 14 June 2018 with written terms of reference (which had been amended and restated with effect from 1 January 2019) in compliance with Rule 3.21 of the Listing Rules and the CG 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. Lee Kwok Tung Louis (Mr. Shang Lei resigned and Mr. Lee Kwok Tung Louis was appointed as a member of the Audit Committee on 15 April 2019). 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 the Board. The Audit Committee discussed the accounting principles and policies adopted by the Group together with the management and the external auditors. The written terms of reference of the Audit Committee are posted on the Stock Exchange's website and on the Company's website.

The Group's consolidated financial statements for the year ended 31 December 2018 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 December 2018 comply with applicable accounting standards and the Listing Rules and that adequate disclosures have been made.

Nomination Committee

The Company established the Nomination Committee on 14 June 2018 with written terms of reference (had been amended and restated with effect from 1 January 2019) in compliance with the CG Code. The Nomination Committee comprises an executive Director, Mr. Cao Changcheng, (being the chairman of the Nomination Committee) and two INEDs, Mr. Lee Kwok Tung Louis (Mr. Shang Lei resigned and Mr. Lee Kwok Tung Louis was appointed as a member of the Nomination Committee on 15 April 2019) and Mr. Ho Ka Chun. The primary duties and responsibilities of the Nomination Committee are to review and assess the composition of the Board and the independence of the independent non-executive Directors and make recommendations to the Board on appointment of new Directors. The nomination policy of the Company aims to lay down a formal, considered and transparent nomination procedure for new members of the Board to ensure orderly succession for appointments and that the Board consists of members who are balanced in skill, experience and diversity in perspectives and satisfy the business requirements of the Company.

In selecting new directors or filling casual vacancies, the Nomination Committee will consider the candidate's professional qualification and skill, integrity and reputation, achievement and experience in the industry in which the Company operates, as well as his time commitment. The Nomination Committee will nominate candidates it considers appropriate with reference to the standards of the Board Diversity Policy, including but not limited to, gender, age, cultural and educational background, professional experience, talents, skills, knowledge, lengths of service, other qualities and factors relating to its own business model and specific needs from time to time. The ultimate decision of all Board appointments should be based on meritocracy and the likely contributions that the selected candidates will bring to the Board. For details of the Board Diversity Policy, please refer to the paragraph headed "Board Diversity Policy" in this section.

According to the Company's nomination procedure, a Nomination Committee meeting will be convened and Board members will be invited to nominate candidates, while candidates recommended by senior management or controlling shareholder of the Company will also be considered. Suitable candidates will then be recommended by the Nomination Committee to the Board for consideration and approval. Directors appointed by the Board will retire and are eligible for re-election at the forthcoming annual general meeting after their appointment. A circular containing information of the directors to be re-elected will be sent to shareholders for their reference in relation to their voting as required by Rule 13.51(2) of the Listing Rules.

The work performed by the Nomination Committee since its establishment and up to the date of this report included the following:

- reviewing the structure, size, composition and diversity of the Board;
- assessing the independence of the independent non-executive Directors;
- considering the qualification of Mr. Lee Kwok Tung Louis as an independent non-executive Director and making recommendation to the Board on the appointment; and
- considering the qualifications of the retiring Directors, namely Mr. Hou Taisheng, Ms. Meng Qingfen and Mr. Ho Ka Chun, and the Director appointed by the Board, namely Mr. Lee Kwok Tung Louis, standing for re-election at the forthcoming AGM.

The Nomination Committee considered that an appropriate balance of diversity perspectives of the Board was maintained. For details of the appointment and re-election of Directors, please refer to paragraph headed "Appointment and Re-election of Directors" in this section.

Remuneration Committee

The Company established the Remuneration Committee on 14 June 2018 with written terms of reference in compliance with the CG Code. The Remuneration Committee comprises two INEDs, Mr. Lee Kwok Tung Louis (being the chairman of the Remuneration Committee) (Mr. Shang Lei resigned and Mr. Lee Kwok Tung Louis was appointed as the chairman of the Remuneration Committee on 15 April 2019) and Mr. Ho Ka Chun and an executive Director, Mr. Cao Changcheng. The primary duties and responsibilities of the Remuneration Committee are to make recommendations to the Board on the appropriate policy and structure for all aspects for the Directors' and senior management's remuneration. The written terms of reference of the Remuneration Committee are posted on the Stock Exchange's website and the Company's website.

The work performed by the Remuneration Committee since its establishment and up to the date of this report included the following:

- considering the proposed remuneration of Mr. Lee Kwok Tung Louis as an independent non-executive Director, Mr. Li Zhen as the chief financial officer of the Company and Mr. Pang Wai Ching as the company secretary of the Company;

- reviewing the Company's emolument policy and structure for all Directors and senior management of the Company; and

- determining the policy for the remuneration of executive Directors, assessing performance of executive Directors and approving the terms of executive directors' service contracts.

The Remuneration Committee has reviewed the remuneration packages and emoluments of the Directors and senior management and considered that they are fair and reasonable during the year ended 31 December 2018. No Director nor any of his associates is involved in deciding his own remuneration.

The Remuneration Committee has adopted the manner set out under the code provision B.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration package of individual executive Director and senior management.

ATTENDANCE RECORDS OF MEETINGS

The Board meets regularly for considering, reviewing and/or approving matters relating to, among others, the financial and operating performance, as well as, the overall strategies and policies of the Company. Additional meetings are held when significant events or important issues are required to be discussed and resolved.

Three Board meetings and one Audit Committee meeting were held during the year ended 31 December 2018. The individual attendance records of the meetings are set out as follows:

	No. of meetings attended during the year ended 31 December 2018				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General meeting
Executive Directors					
Mr. Cao Changcheng	3/3	–	–	–	–
Mr. Cao Dudu	3/3	–	–	–	–
Mr. Hou Taisheng	3/3	–	–	–	–
Ms. Meng Qingfen	3/3	–	–	–	–
Mr. Chi Yongsheng	3/3	–	–	–	–
Non-executive Director					
Mr. Wang Jianhang	3/3	–	–	–	–
Independent non-executive Directors					
Mr. Sze Wing Chun	2/2	1/1	–	–	–
Mr. Lee Kwok Tung Louis (appointed on 15 April 2019)	–	–	–	–	–
Mr. Shang Lei (resigned on 15 April 2019)	2/2	1/1	–	–	–
Mr. Ho Ka Chun	2/2	1/1	–	–	–

Under the code provision A.1.1 of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals. Since the Company was listed in July 2018, the Directors consider that they have met regularly even though the number of board meetings was three in 2018.

BOARD DIVERSITY POLICY

The Board recognises and embraces the benefits of having a diverse Board with a view to enhancing its effectiveness and achieving a high standard of corporate governance. The Board also sees diversity as an essential element in maintaining a competitive advantage and contributing to the attainment of the strategic objectives and sustainable development of the Company. Therefore, the Company has adopted a board diversity policy on 14 June 2018 to ensure that the Company will, when determining the composition of the Board, consider board diversity in terms of the selection criteria (the "**Selection Criteria**") based on a range of diversity perspectives including, among other things, gender, age, cultural and educational background, professional experience, talents, skills, knowledge, length of service and other qualities of Directors. All appointments by the Board will be based on meritocracy, and candidates will be considered against the Selection Criteria.

As at the date of this report, the Board comprises nine Directors. Three of them are independent non-executive Directors, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, age, educational background, professional experience, skills, knowledge and length of service.

INDEPENDENT AUDITORS' REMUNERATION

During the year ended 31 December 2018, the remuneration paid and payable to the external auditors of the Company, KPMG, in respect of the audit services was as follow:

Services rendered	**Remuneration paid/payable** RMB'000
Audit services	3,500

Note: Audit services in 2018 mainly included audit work in connection with the audit of the Company's consolidated financial statements.

SHAREHOLDERS' RIGHT

As one of the measures to safeguard Shareholders' interest and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual directors, for Shareholders' consideration and voting. All resolutions put forward at Shareholders' meeting will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the Stock Exchange's website and the Company's website after the relevant Shareholders' meeting.

Extraordinary general meetings may be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

Shareholders may send written enquiries or requests in respect of their rights to the Company's principal business address in Hong Kong.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board continuously supervises the effectiveness of the company's risk management and internal control system with the assistance of the Audit Committee, so as to protect the Company's assets and the interests of Shareholders. The Company's risk management and internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Company has established its internal audit function, which is responsible for independently reviewing the adequacy and effectiveness of the Company's risk management and internal control system on an annual basis and reporting the results to the Audit Committee. In addition to the internal audit function, all employees are accountable for risk management and internal control within their business scope. Business departments actively cooperate with internal control and internal audit functions, report to the management team on any important business development and how policies and strategies established by the Company are implemented within the department, and timely identify, assess and manage major risks.

The Company has formulated risk management and internal control management policies to construct a fundamental environment for risk management and internal control. In addition, the Company has set up the internal control framework, which relates to business processes such as procurement, sales, human resources and payroll, capital, intellectual property rights, financial reporting and disclosure. In 2018, the Company conducted an internal control project on bank bill management and has optimized the related process. The Board has conducted review of the effectiveness of the internal control system of the Company and its subsidiaries and has planned to further develop the risk management and internal control system to ensure its effective operation.

For the year ended 31 December 2018, the Company has collected information and carried out investigations in respect of risk management and internal control issues for its subsidiaries. Key risk elements affecting the Group and contingency measures adopted were reported to the Audit Committee. No material deviation in the compliance guidance on risk management and internal controls by the subsidiaries was reported. All subsidiaries have complied with the relevant laws and industry regulations in respect of financial reporting and legal compliance. No material non-compliance of rules or material litigation risk was reported, nor was there any fraud or corruption issue.

In additional, the risk management and internal control of the Group were reviewed by the external professional consultants for the year ended 31 December 2018. Where appropriate, their recommendations are adopted and enhancements to the risk management and internal controls will be made.

The Board and the Audit Committee considered that (i) the risk management and internal control system of the Company was adequate and efficient; and (ii) the resources allocated, staff qualifications and experience in respect of the accounting, internal auditing and financial reporting functions of the Company as well as training programs and budget were adequate and sufficient.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company has adopted shareholders communication policy with the objective of ensuring that the Shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company.

The Company has established several channels to communicate with the Shareholders as follows:

(i) corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the Stock Exchange's website and the Company's website;

(ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(iii) corporate information is made available on the Company's website;

(iv) annual and extraordinary general meetings provide a forum for the Shareholders to make comments and exchange views with the Directors and senior management; and

(v) the Hong Kong share registrar of the Company serves the Shareholders in respect of share registration, dividend payment and related matters.

The Company keeps on promoting investor relations and enhancing communication with the existing Shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

Corporate Governance Report

CONSTITUTIONAL DOCUMENTS

Since the Listing Date, there was no change to the Company's memorandum and articles of association.

DISCLOSURE OF INSIDE INFORMATION

The Group acknowledges its responsibilities under the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong and the Listing Rules and the overriding principle that inside information should be announced immediately when it is the subject of a decision.

The procedures and internal controls for the handling and dissemination of inside information are as follows:

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;

- the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and the Company's website;

- the Group has strictly prohibited unauthorised use of confidential or inside information; and

- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the executive Directors, the Company Secretary and the head of investor relations of the Company are authorised to communicate with parties outside the Group.

Environmental, Social and Governance Report

ABOUT ESG REPORT

This is the first annual environmental, social and governance report issued by Fusen Pharmaceutical Company Limited (the "Group", the "Company", "we" or "us"; stock code: 01652.HK). This report, prepared under the requirements of Social and Governance Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), represents the disclosure or explanation of the Company's sustainable and on-going operation activities for the year ended 31 December 2018 (the "**Reporting Period**") according to its own condition.

ABOUT FUSEN PHARMACEUTICAL

Business Overview

As a leading Shuanghuanglian-based cold medicine manufacturer, we, in addition to providing Shuanghuanglian-based cold medicine, our core product, engage in research and development, production and sales of various proprietary Chinese medicine western medicine products for treating cold, fever, gynecological diseases and anemia. Embracing our business philosophy, "Health is blessing", we dedicate ourselves to ensure quality medicine and sincere service for all Chinese nationals.

Sustainable Development Strategy

As a medicine manufacturer and supplier, ensuring medicine safety and on-going operation is utmost important. We take a bottom-up approach, from product quality to actively building a pharmaceutical brand with green and environmental protection concept, to providing safe medicine to consumers. It is our goal to secure the health of Chinese nationals and explore more efficient therapeutic formulation. Besides, maintaining cooperation relationship with stakeholders is an important factor for the Company's sustainable development. We provide employees with a safe and comfortable working environment as well as fair and open career development opportunity, through which their legal rights are protected. Close cooperation with suppliers gives rise to a green supply chain system and a win-win situation. Also, the Company actively responds to the opinions and suggestions of other interest groups such as government authorities and community groups. Strongly advocating social and community activity and paying attention to environmental protection, the Company establishes a win-win development relationship with society.

Communication with Stakeholders

Our stakeholders mainly include employees, consumers, suppliers, distributors, shareholders, government and other community groups. To facilitate a better understanding of the performance of the Company's social responsibility, diversified communication channels have been established, including official WeChat account, official website, email address, etc. We will continue to optimize the Company's communication platform and mechanism to collect opinions and suggestions from stakeholders in a more efficient way and promptly give feedback on the issues every party concerns with in order to encourage healthy development of the Company.

ENVIRONMENT

We widely understand and take initiatives to meet the requirement under the state environmental protection laws and regulations. On such basis, we actively establish system and formulate strategy in respect of environmental protection based on production line so that relevant environmental protection requirements are strictly enforced in several aspects, ranging from project design, management and operation to discharge of pollutants.

Emission Reduction

As a famous medicine manufacturer in the PRC, we strictly complied with relevant laws and regulations promulgated by the state and local official environmental protection authorities, including but not limited to the requirements under *Environmental Protection Law of the People's Republic of China, Atmospheric Pollution Prevention and Control Law of the People's Republic of China, Water Pollution Prevention and Control Law of the People's Republic of China and Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes*. We strive to prevent and deal with emission of exhaust gas and waste water and disposal of solid waste directly or indirectly relating to manufacturing and operation activities to effectively protect the environment while developing our business. During the Reporting Period, there was no accident regarding environmental pollution by the Company.

Emissions from the Company's production process mainly include:

— emission of exhaust gas: nitrogen oxides (NOx), sulfur oxides (SOx), particulate matter (PM)

— emission of waste water: major pollutant represents chemical oxygen demand

— disposal of solid waste

Emission of Exhaust Gas

Exhaust gas produced by the Company mainly arises from the process of waste water treatment and manufacturing. For the year ended 31 December 2018, the Company's total gas emission was 1,828,400 cubic metres, representing 36.40 cubic metres of gas emission for each RMB10,000 of output value in average. Emissions of each element are illustrated as below:

Types of element	Nitrogen oxides (NOx)	Sulfur oxides (SOx)	Particulate matter (PM)	Total
Emission (tons)	3.03	0.31	0.52	3.86

Emission of Greenhouse Gas

The Company's emission of greenhouse gas mainly arises from usage of fuel (coal, oil, natural gas) as well as electricity and steam converted from fossil fuel. For the year ended 31 December 2018, the Company's total greenhouse gas emission was 15,600 tons of CO2 equivalent, of which direct and indirect emission of greenhouse gas were 11,600 tons of CO2 equivalent and 4,000 tons of CO2 equivalent respectively.

Emission of Waste Water

Waste water produced by the Company mainly arises from cleaning of materials and equipment during the production process. Since the construction of our plant, we have been investing in waste water treatment station and continuously investing in various projects, including clean production, point source treatment and expansion of waste water station. Total investment by the Company after 2006 has amounted to RMB32.67 million. Industrial waste water would undergo treatment process before emission and would be discharged only upon meeting the discharge standard of water pollutants for pharmaceutical industry Chinese traditional medicine category (GB21906-2008). Online monitoring system is installed on the drainage port. Staff working in waste water treatment station is required to work with 24/7 covering shift schedule and check the discharged waste water quality online for every 2 hours. Items under monitoring include PH value, color, suspended substances, biochemical oxygen demand after 5 days (BOD_5), chemical oxygen demand (CODcr), animal and vegetable oils, ammonia nitrogen, total nitrogen, total phosphorus, total organic carbon, total mercury, total arsenic, etc. For the year ended 31 December 2018, total waste water discharged by the Company was 110,100 tons and there was no record of exceedance of discharge standard of waste water.

Disposal of Solid Waste

Solid waste mainly arises from the general rubbish produced in offices and waste products from workshops, of which 3,139.30 tons was categorized as non-hazardous waste, and there was no hazardous waste. Solid waste was recycled for reuse at recovery point.

Resources Utilization

Resources consumed by the Group in production process primarily include water, electricity, steam and natural gas, etc., which are mainly purchased externally. Our production, operation and employee's living involve resource consumption. In order to reduce resource wastage and enhance efficiency in usage of resources, the Company has formulated *Energy Management System*, under which refined management for electricity, water natural gas and energy consumption was implemented. In addition, a two-level management system is adopted for the Company and workshops. An energy conservation and management leadership team, as a management team for the Company's energy conservation and management, has been set up at the Company level; while energy conservation managers have been designated to workshops and related departments. By incorporating energy management into performance assessment and setting up corresponding reward and punishment scheme, we have established an energy management network throughout the Company.

Water resource consumed by the Company is mainly used for production and manufacturing, operation and office purposes, a small part of which is used for environmental protection and/or emergency and fire service purposes. In order to lower our water consumption, administration department regularly checks and maintains water pipes and taps to prevent drip and leakage while used water is collected for irrigation. In 2018, total water consumption by the Company was 48,671 tons, representing 0.97 tons of water consumption for each RMB10,000 of output value in average.

During production process, centralized production model is adopted for heavy electricity consuming equipment, the operation hours of which is strictly controlled to increase the loading and reduce unit power consumption. In workshop area, we gradually replace the original incandescent lamps with highly efficient energy saving lamps. On such basis, total electricity consumption by the Company for the year was 8,592,600 kwh, representing 171.05 kwh of electricity consumption for each RMB10,000 of output value in average.

In addition, natural gas, steam, coal, diesel and office paper consumption during production process were 610,000 cubic meters, 16,008 cubic meters, 3,530 tons, 4 tons and 10 tons respectively. Besides, we used glass, plastics, paper, PVC and aluminium foil as packaging materials and during the Reporting Period, total packaging materials consumption was 7,246.76 tons, representing 0.14 tons of packaging materials for each RMB10,000 of output value in average.

Environment and Natural Resources

We pay attention to environmental protection and resources conservation and take concrete management measures in daily operation and management as well as production and manufacturing. We implement strict management measures in our production and operation process to identify pollutants discharged and factor that creates potential impact to the environment while continuously taking initiatives to mitigate the impact of discharged pollutants to the environment, increasing energy utilization efficiency and reducing resources wastage. There is no material impact to the environment and natural resources from our operation activities, yet we keep seeking practical solutions and production method for preventing pollution, reducing discharge and energy conservation in order to fulfil our social responsibility.

As this is our first ESG report and a comprehensive data collection and analysis system has not been established by the Company prior to the Reporting Period, quantitative results of all corresponding energy conservation measures cannot be obtained and no disclosure is made in this report. In future, we will continue to establish and optimize the assessment system for environmental key performance indicators.

SOCIETY

Employment and Labor Practices

We pay attention to the personal interests of our employees and strictly comply with the requirements under state laws and relevant policies, including *Labour Law of the People's Republic of China, Labour Contract Law of the People's Republic of China and Social Insurance Law of the People's Republic of China*. We adhere to equitable employment policy and provide protection and benefit to our staff.

Talent diversification is our main focus. On the basis of our corporate value, we persist in a fair and equitable selection process without any discrimination due to gender, age, region, marriage status, race and religion.

We protect the legal interests of the minors and employment of child labour is strictly prohibited. Human resources team will check and verify the personal and related information of new staff and recruitment formalities will be carried out only when recruitment conditions are met to ensure that the Company does not employ any child labour.

In addition, we protect female staff's interests in accordance with the laws, and defend the equitable interests of female staff in health and workplace equitability. Sufficient seats are reserved for female employees in employees representative meeting and labour union members meeting in order to listen to the comments from female employees in a more efficient way. Special labor protection is given to female employees during pregnancy, maternity and lactation period. Breaks are provided to female employees who are pregnant for 7 months or above and sufficient maternity leave and lactation leave are provided for pregnant women.

As at 31 December, 2018, we had 1,244 on-job employees, with a male-to-female ratio of about 0.9:1. All employees were contracted employees, and the age distribution of our employees was reasonable. During the Reporting Period, 30 employees resigned in total, which is of comparatively high employee stability.

Furthermore, in order to implement the Company's talent development strategy, we establish a sound remuneration and performance appraisal system to motivate employees' initiative and creativity with reference to the Company's actual situation. Every employee is fully paid with remuneration and is entitled to paid annual leaves. Living quarters with different environments are provided to professional technical staff according to their age. Meanwhile, the Company adheres to a fair and equitable principle for performance appraisal, which is carried out with refined and qualitative indicators. Year-end bonus is granted with reference to the result of staff's consolidated performance appraisal.

Health and safety

It is an on-going state policy to implement safety and management measures as well as the base of corporate management. We commit to taking care of both physical and mental health of our staff by actively taking measures to reduce occupational exposure to ensure staff's safety and health in workplace and during production process.

In accordance with the requirements under *Production Safety Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases*, Safety Production Regulations of Henan Province and other relevant laws and regulations, the Company, according to our actual situation, establishes Safety and Management System, which provides for safety production environment and protection of staff's health. The Company establishes safety management structure at the Group level. Safety production committee comprising the leadership of the Company and responsible officers from relevant departments is responsible for organizing and leading safety management, studying and formulating technical measures for safety production and labour protection scheme, carrying out safety production examination and inspection and investigating and dealing with accidents. Also, safety management leadership team is established at the Company level to give safety education to the staff, implement monitoring and inspection for safety production and thoroughly implementing all safety directions given by the safety committee of the Group.

In addition, we provide three-level (at the Company, workshop and group levels) safety training to our staff (including part-time workers, workers on secondment, contracted workers, trainees, college students, etc.) to help them realize basic safety knowledge, operating standards, precautions and safety responsibility in order to understand the functionality of production equipment and the usage of safety devices. Recurring safety education activity is conducted through meeting, broadcasting on LED display boards, presentation, logos and accident review. As for fire safety management, we arrange designated staff to be on duty at specified location and go on patrol in different areas to avoid risk in the fire prevention area. Meanwhile, the Company takes initiatives to optimize working environment in order to ensure the physical and mental health of our staff.

As at 31 December 2018, the Company did not record any material safety accident and fire disaster or any death on business case.

Development and Training

According to our long-term development and operation need, the Company has formulated annual training programme to provide corresponding training to all staff involved in different work, which helps them to improve their knowledge, enhance professional skills and raise service standards. Also, depending on the research and development progress of new products and the actual situation of the promulgation of relevant state pharmaceutical policy, we organize staff to participate in internal and external trainings, including department self-organizing training, industry forum, summit, ect. As for sales staff, trainings focus on the topics of marketing, cultivation of communication skills as well as pharmaceutical policy; as for production and technical staff, trainings focus on the promotion and implantation of medicine, environmental protection and safety regulations and GMP management standards; as for logistics staff, trainings focus on the knowledge of cost and financial management. In terms of frequency, members of middle and senior management need to attend at least 2 training sessions every year; at least 4 training sessions every year for sales representatives; at least 1 training session every week for staff in quality control and technical, production and materials supply functions; and at least 1 training session every month for logistics staff. Training forms the Company's long-term and systematic talent cultivation strategy. In order to improve our training management and quality, the Company also establishes a training leadership group to strengthen management enforcement in the organization.

Supply Chain Management

Supply chain management is important to secure product quality and the Company's healthy operation. In order to regulate supplier and procurement management, the Company's establishes Supplier and Procurement Management System which sets up relevant requirements for the engagement and assessment of supplier as well as formulation and execution of procurement plan.

Before including a qualified supplier in our list, the Company carries out qualification audit and/or on-site audit for materials supplier at different levels in order to guarantee product quality and safety at source.

Regular review is made for suppliers reaching cooperation agreement with us. Delivery rate and supplied materials pass rate are reviewed and assessed annually. Suppliers falling behind our standards shall be promptly excluded. The Company keeps communicating with and collecting feedback from suppliers cooperating with us and supervises them if any rectification is needed.

Environmental, Social and Governance Report

Product Responsibility

The Company continuously and strictly complies with the requirements under *Pharmaceutical Administration Law of the People's Republic of China, Good Manufacturing Practice for Pharmaceutical Products* and other relevant laws and regulations, embraces our service philosophy, "Health is blessing", and dedicates itself to providing safe and reliable medicines to consumers. We implement strict quality control in accordance with *Good Manufacturing Practice for Pharmaceutical Products* (GMP Standards) throughout medicine manufacturing process, continuously pay attention to the quality during the process of purchasing raw materials, production and storage and transportation of finished goods. During the process of raw materials procurement and acceptance inspection, rigorous audit management and admittance approval are applied to suppliers. Suppliers cooperating with us are required to enter into quality assurance agreement. Inspection and categorization are carried out by inspectors and quality assurance personal. Medicines are produced under the product registration standards, after which the Company's quality assurance department would inspect, record and grade the quality of the products.

We ensure that the Company's staff, facilities and equipment are in line with production scale. A special precision instrument room and testing equipment are in place for quality control and test for small volume parenteral solutions, large volume parenteral solutions, oral solutions, capsules, tablets, granules, traditional Chinese medicine extract powder, received raw and auxiliary materials, medicine packaging materials, printing packaging materials, intermediate products and unpacked products. During the Reporting Period, no product was returned due to product quality, safety or health reason.

Anti-corruption

To prevent bribe, fraud and corruption, we designate audit department as the Company's official function to fight against corruption, which is responsible for receiving anti-corruption report, investigation and providing solution in order to assist the management to establish and prefect the anti-corruption mechanism and conduct relevant risk assessment annually. We advocate honesty and integrity in our corporate culture and provide trainings to staff, which highlights genuineness, morals and anti-corruption. In addition, diversified whistleblower channels are in place such as telephone, e-mail and mailing box, to ensure the efficient reporting of corruption and complaints. The Company ensures prompt investigation in corruption case and keeps the reporting and investigation confidential.

During the Reporting Period, there were no concluded legal cases regarding corrupt practices brought against the Group, its subsidiaries or its employees and we are not aware of any non-compliance with relevant laws and regulations relating to bribery, extortion, fraud and money laundering.

Environmental, Social and Governance Report

Social Investment

The Company cannot achieve sustainable development without support from every party in society. While striving to provide highly efficient medicines to patients, we proactively make contribution to social welfare and charity work to fulfil our responsibility as a corporate citizen. During the year ended 31 December 2018, the Company proactively participated in social welfare and charity activities in different areas.

We take care of the needy in society and provide and supplement living necessities to the poor. During the year, the Company organized employees to give living necessities including food and medicine to villagers in poverty-stricken village for several times. Also, our employees organically participated in tree planting activities to restore barren areas, showing care for the environment in community.

Report of the Directors

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

The Group is principally engaged in manufacturing and sale of pharmaceutical products.

CORPORATE REORGANIZATION

In preparation for the Listing, the companies now comprising the Group underwent the corporate reorganization (the "**Reorganization**") pursuant to which the Company became the holding company of the Group before listing. For details of the Reorganization, please refer to the section headed "History, Reorganization and Corporate structure" in the Prospectus.

The Company's shares have been listed on the Stock Exchange since the Listing.

DIVIDEND POLICY

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

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

Such declaration and payment of the dividend by the Company is also subject to any restrictions under the Companies Laws of the Cayman Islands, any applicable laws, rule and regulations and the articles of association of the Company.

Report of the Directors

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Group as at 31 December 2018 are set out in the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of financial position and the notes to consolidated financial statements, respectively, in this report.

The Board recommends the payment of a final dividend of RMB0.74 cents per ordinary share for the year ended 31 December 2018 (equivalent to HK$0.86 cents by adopting the prevailing exchange rate on 28 March 2019 set by the People's Bank of China) (2017: Nil) to the Shareholders whose names appear on the register of members of the Company on 9 July 2019.

Subject to the approval of the Shareholders at the forthcoming AGM to be held on Friday, 28 June 2019, the said final dividend will be paid in cash on 9 August 2019. Details of dividend for the year ended 31 December 2018 are set out in Note 12 to the consolidated financial statements of the Company.

CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming AGM is scheduled to be held on 28 June 2019.

The register of members of the Company will be closed during the following periods:

(a) for determining eligibility to attend and vote at the AGM:

Latest time to lodge transfer documents for registration:	4:30 p.m., Monday, 24 June 2019
Closure of register of members:	Tuesday, 25 June 2019 to Friday, 28 June 2019 (both days inclusive)
Record date:	Friday, 28 June 2019

(b) for determining entitlement to the proposed final dividend:

Latest time to lodge transfer documents for registration:	4:30 p.m., Thursday, 4 July 2019
Closure of register of members:	Friday, 5 July 2019 to Tuesday, 9 July 2019 (both days inclusive)
Record date:	Tuesday, 9 July 2019

In order to be eligible to attend and vote at the AGM and to qualify for the proposed final dividend, all transfer of share(s), accompanied by the relevant share certificate(s) with the properly completed transfer from(s) either overleaf of separately, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than the respective latest dates and time set out above.

Report of the Directors

BUSINESS REVIEW

The review of the business of the Group during the year ended 31 December 2018 and the discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this report. The description of principal risks and uncertainties facing the Group and key financial performance indicators are set out in the section headed "Management Discussion and Analysis" of this report. The financial risk management objectives and policies of the Group are set out in the consolidated financial statements of this report. Save for the Listing, no important event affecting the Group has occurred since the end of the financial year ended 31 December 2018 and up to the date of this report.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for each of the four financial years ended 31 December 2018 is set out on page 4 of this report. Such summary does not form part of the audited consolidated financial statements of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2018 are set out in Note 14 to the consolidated financial statements of this report.

SHARE CAPITAL

Details of the Company's share capital is set out in Note 27 to the consolidated financial statements of this report.

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 14 June 2018 ("**Share Option Scheme**") in which certain participants, including any employee (full-time or part-time), director, consultant, adviser or substantial shareholder of the Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of the Group, may be granted options to subscribe for the ordinary shares in the share capital of the Company with a nominal value of HK$0.10 each ("**Share(s)**"). The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to above parties and to promote the success of the business of the Group. The Share Option Scheme shall expire at the close of business on 13 June 2028 unless terminated earlier by the Shareholders in general meeting. The Directors believe that the Share Option Scheme is important for the recruitment and retention of quality executives and employees.

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option, which must be a business day;

(ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and

(iii) the nominal value of a Share on the date of grant of the option.

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 this Company (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of the Shares in issue as at the Listing Date. Therefore, the Company may grant options in respect of up to 80,000,000 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 80,000,000 Shares from time to time) to the participants under the Share Option Scheme.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer is made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.0. The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine, which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

During the year ended 31 December 2018, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Share Option Scheme.

RESERVES

Details of movements in the reserves of the Company and the Group are set out in Note 27 to the consolidated financial statements of this report and in the consolidated statement of changes in equity, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's memorandum and articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to the existing Shareholders.

CONNECTED TRANSACTIONS

Non-Exempted Continuing Connected Transaction

As disclosed in the Prospectus, upon the Listing, the following non-exempt continuing connected transactions have been entered into and will continue to be carried out between the Group and 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) ("**Fusen Chinese Medicine**"), details of which are set out below:

Purchase of medicinal herbs from Fusen Chinese Medicine

On 14 June 2018, a master purchase agreement (the "**Master Purchase Agreement**") was entered into between Henan Fusen as purchaser and Fusen Chinese Medicine as supplier whereby the Group will purchase and Fusen Chinese Medicine will supply lonicera japonica and baikal skullcap root (黃岑) as raw materials (the "**Relevant Materials**") for production of the Group's Shuanghuanglian-based cold medicine products. The term of the Master Purchase Agreement will commence on the Listing Date, 11 July 2018, and expire on 31 December 2020. The purchase price for the purchase transactions will be determined with reference to the prevailing comparable market price. Specific terms of the transactions will be determined on order-by-order basis and separate agreements will be entered into by the parties.

Fusen Chinese Medicine is a company incorporated in the PRC with limited liability and principally carries on the business of trading of medicinal herbs. As at the date of this report, Fusen Chinese Medicine was wholly-owned by Henan Fusen Shiye Group Limited (河南福森實業集團有限公司) ("**Fusen Shiye**") which was a connected person of the Company due to the fact that it was owned as to 50% by Mr. Cao Changcheng, an executive Director, the chairman of the Board and a Controlling Shareholder. Fusen Chinese Medicine is therefore a close associate of Mr. Cao Changcheng and a connected person of the Company. Consequently, transactions between the Group and Fusen Chinese Medicine will constitute continuing connected transactions for the Group after the Listing.

Proposed annual caps

For the years ending 31 December 2018, 2019 and 2020, the estimated purchase price payable by the Group to Fusen Chinese Medicine in respect of the purchase of the Relevant Materials are approximately RMB30.0 million, RMB33.0 million and RMB36.0 million respectively.

Listing Rules Implications

Fusen Chinese Medicine is a connected person of the Company under Chapter 14A of the Listing Rules, the transactions contemplated under the Master Purchase Agreement constitute continuing connected transactions for the Company under the Listing Rules after Listing. Pursuant to Rule 14A.105 of the Listing Rules, the Company applied for and the Stock Exchange had granted a waiver from strict compliance with the announcement, circular and independent Shareholders' approval requirements under the Listing Rules for the Master Purchase Agreement subject to the conditions that (i) the annual aggregate amount payable by the Group pursuant to the Master Purchase Agreement will not exceed the proposed annual caps stated above for each of the financial years ending 31 December 2018, 2019 and 2020; and (ii) the Company will comply with the reporting and annual review requirements under Chapter 14A of the Listing Rules. For the year ended 31 December 2018, purchases by the Group from Fusen Chinese Medicine were within the proposed annual caps and amounted to approximately RMB8.6 million.

Confirmation from Directors in relation to Continuing Connected Transactions

The Independent Non-executive Directors of the Company have reviewed these transactions and confirmed that the continuing connected transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company confirms that the Company has complied with the reporting and annual review requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions set out above.

The Directors, including the independent non-executive Directors, consider that the continuing connected transactions above and the annual caps are fair and reasonable, and that such transactions have been entered into and will be carried out in the ordinary and usual course of the business of the Group, on normal commercial terms, are fair and reasonable, and in the interests of the Shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions disclosed above in accordance with Hong Kong Standard on Assurance Engagement 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740, Auditor's Letter on Continuing Connected Transactions under the Listing Rules, issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

In addition, all of the continuing connected transactions of the Company disclosed above constitute related party transactions set out in Note 30 to the consolidated financial statements of this report. Save as disclosed above and the exempt connected transactions as disclosed in the Prospectus, all other related party transactions as described in Note 30 to the financial statements did not fall under the definition of "continuing connected transaction" or "connected transaction" under the Listing Rules.

Save for the continuing connected transaction as disclosed above, the related party transactions as disclosed in Note 30 to the consolidated financial statements of this report and the exempt connected transactions as disclosed in the Prospectus, during the year ended 31 December 2018, the Company had no connected transactions or continuing connected transactions which fell to be disclosed in accordance with the provisions under Chapter 14A of the Listing Rules in relation to the disclosure of connected transactions and continuing connected transactions. The Company has complied with applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DISTRIBUTABLE RESERVES

Please refer to Note 27 to the consolidated financial statements of this report for details of the Company's distributable reserve as at 31 December 2018.

MAJOR CUSTOMERS, SUPPLIERS AND SUBCONTRACTORS

During the year ended 31 December 2018, the percentage of the Group's aggregate revenue attributable to the Group's largest customer was approximately 3.3%, while the percentage of the Group's total revenue attributable to the five largest customers in aggregate was approximately 12.8%.

During the year ended 31 December 2018, the percentage of the Group's largest supplier was approximately 14.7% of the total cost of sales for the year, while the percentage of the Group's five largest suppliers accounted for approximately 45.1% of the total cost of sales.

Save as disclosed in this report, none of the Directors, or any of their close associates or Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors during the year ended 31 December 2018 were as follows:

Executive Directors

Cao Changcheng (曹長城) *(Chairman)* (appointed on 20 November 2016)
Hou Taisheng (侯太生) (appointed on 7 April 2017)
Chi Yongsheng (遲永勝) (appointed on 7 April 2017)
Meng Qingfen (孟慶芬) (appointed on 7 April 2017)
Cao Dudu (曹篤篤) *(Chief Executive Officer)* (appointed on 18 January 2013)

Non-Executive Directors

Wang Jianhang (王建航) (appointed on 22 December 2017)

Independent non-executive Directors

Sze Wing Chun (施永進) (appointed on 14 June 2018)
Shang Lei (尚磊) (appointed on 14 June 2018)
Ho Ka Chun (何家進) (appointed on 14 June 2018)

In accordance with the Company's memorandum and articles of association, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Such retiring Directors may, being eligible, offer themselves for re-election at the annual general meeting. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

Accordingly, Mr. Chi Yongsheng, Ms. Meng Qingfen and Mr. Ho Ka Chun will retire by rotation pursuant to article 108 of the Articles, and being eligible, will offer themselves for re-election as Directors at the forthcoming AGM.

PERMITTED INDEMNITY PROVISION

Every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors, non-executive director and independent non-executive Directors has signed a service agreement with the Company for an initial term of three years (subject to termination in certain circumstances as stipulated in the relevant service agreement).

None of the Directors who are proposed for re-election at the forthcoming AGM has a service agreement with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Biographical Details of Directors, Senior Management and Company Secretary" of this report.

EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five individuals with highest emoluments are set out in Note 9 and Note 10 to the consolidated financial statements of this report.

EMOLUMENT POLICY

The Company's remuneration policy comprises primarily a fixed component (in the form of a base salary) and a variable component (which includes discretionary bonus and other merit payments), considering other factors such as their experience, level of responsibility, individual performance, the profit performance of the Group and general market conditions.

The Remuneration Committee will meet at least once for each year to discuss remuneration related matters (including the remuneration of Directors and the senior management) and review the remuneration policy of the Group. It has been decided that the Remuneration Committee would determine, with delegated responsibility, the remuneration packages of individual executive Directors and the senior management.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in the Prospectus and in this report, neither the Company nor any of its subsidiaries had entered into any contract of significance with the Controlling Shareholders or their subsidiaries, or any contract of significance for the provision of services to the Company or any of its subsidiaries by the Controlling Shareholders or their subsidiaries, during the year ended 31 December 2018.

DIRECTORS' INTEREST IN SIGNIFICANT CONTRACTS

Save as the related party transactions disclosed in Note 30 to the consolidated financial statements of this report, no Directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

As at 31 December 2018, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" below, at no time during the year ended 31 December 2018 were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or the Company's subsidiary or holding company or a subsidiary of the Company's holding company a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 of the Listing Rules, were as follows:

Long position in the 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 ("**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 ("**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 a deed of confirmation dated 18 August 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 ("**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 the issued share capital of the Company upon completion of the Global Offering and the Capitalization Issue under the SFO.

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

Save as disclosed above, as at 31 December 2018, none of the Directors nor chief executive of the Company has registered an interests and short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

So far as the Directors are aware, as at 31 December 2018, the following persons (not being Directors or chief executive of the Company) have or are deemed or taken to have an interest or short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO:

The 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.

Save as disclosed above, as at the date of this report, none of the substantial shareholders or other persons, other than the Directors and chief executive of the Company whose interests are set out in the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had any interests or short positions in the shares or underlying shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Save for the Reorganization as disclosed in the Prospectus, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

COMPETING BUSINESS

During the year ended 31 December 2018, none of the Directors or the Controlling Shareholders and their respective associates had any interests in a business, apart from the business of the Group, which competes or may compete with the business of the Group or has any other conflict of interest with the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules.

Non-Competition Undertakings

In order to avoid any possible future competition between the Group and the Controlling Shareholders, Mr. Cao Changcheng and Full Bliss Holdings Limited (each a "**Covenantor**" and collectively the "**Covenantors**") have entered into the Deed of Non-competition on 14 June 2018. Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and for and on behalf of its subsidiaries) that, during the period that the Deed of Non-competition remains effective, he/it shall not, and shall procure that his/its associates (other than any member of the Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested or otherwise be involved, whether directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group.

Each of the Covenantors further undertakes that if any of he/it or his/its close associates other than any member of the Group is offered or becomes aware of any business opportunity which may compete with the business of the Group, he/it shall (and he/ it shall procure his/its associates to) notify the Group in writing and the Group shall have a right of first refusal to take up such business opportunity. The Group shall, within 6 months after receipt of the written notice (or such longer period if the Group is required to complete any approval procedures as set out under the Listing Rules from time to time), notify the Covenantor(s) whether the Group will exercise the right of first refusal or not.

The Group shall only exercise the right of first refusal upon the approval of all the independent non-executive Directors (who do not have any interest in such opportunity). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for considering whether or not to exercise the right of first refusal.

During the year ended 31 December 2018, the Company had not received any information in writing from any of the Controlling Shareholders in respect of any new business opportunity which competed or might compete with the existing and future business of the Group which were offered to or came to be the knowledge of the Controlling Shareholders or their associates (other than any member of the Group), and the Company has received an annual written confirmation from each Covenantor that he/it has complied with the undertakings under the Deed of Non-competition. The independent non-executive Directors have also reviewed and were satisfied that each of the Controlling Shareholders had complied with the Deed of Non-competition.

Report of the Directors

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the section headed "Corporate Governance Report" of this report.

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme as disclosed above in this report, no equity-linked agreements were entered into by the Company during the year ended 31 December 2018.

SUFFICIENCY OF PUBLIC FLOAT

To the best knowledge of the Directors and based on information available in the public domain concerning the Company, at least 25% of the Company's issued share capital was held by the public as at the date of this report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual written confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all the independent non-executive Directors to be independent.

INDEPENDENT AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by KPMG. A resolution will be proposed at the AGM to re-appoint KPMG as the auditors of the Company.

ON BEHALF OF THE BOARD
Fusen Pharmaceutical Company Limited
Cao Changcheng
Chairman and Executive Director

Hong Kong, 29 March 2019

Independent Auditor's Report

Independent auditor's report to the shareholders of Fusen Pharmaceutical Company Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Fusen Pharmaceutical Company Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 59 to 132, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for year ended 31 December 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2018 in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**"), and have been properly prepared in compliance with the disclosure requirement of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), together with any ethical requirements that are relevant to our audit of the consolidated financial statement in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(Continued)*

Revenue recognition

Refer to Note 4 to the consolidated financial statements and the accounting policies in Note 2(r).

The Key Audit Matter	How the matter was addressed in our audit
Revenue of the Group mainly comprises sales of Shuanghuanglian Oral Solutions and Shuanghuanglian Injections to a large number of customers. The Group enters into distribution agreements with most of its customers including the terms of delivery and policies for sales rebates. Purchase orders are then placed with the Group for each purchase by the customers, which specify the terms of sales relating to pricing, return and the location of delivery. Once the products delivered are accepted by the customers, control over the goods is considered to have been transferred to the customers and revenue is recognised accordingly. We identified the timing of revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.	Our audit procedures to assess the timing of revenue recognition included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • inspecting distribution agreements and purchase orders with customers, on a sample basis, to understand the terms of the sales transactions including the terms of delivery and/or acceptance and any sales return arrangements to assess the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards; • comparing the revenue recorded during the financial year, on a sample basis, to the distribution agreements, purchase orders, goods delivery notes with customer's signature, records in third party pharmaceutical products tracking system, and delivery records; • inspecting goods delivery notes and delivery records, on a sample basis, to assess whether revenue transactions recorded just before and after the financial year end date had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the distribution agreements; and • inspecting underlying documentation for manual journal entries and adjustments relating to revenue raised during the year which were considered to be material or met other specific risk-based criteria.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yu Wai Sum.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(Expressed in Renminbi)

	Note	Year ended 31 December 2018 RMB'000	2017 (Note) RMB'000
Revenue	4	**462,061**	452,580
Cost of sales		**(210,744)**	(200,634)
Gross Profit		**251,317**	251,946
Other net income	5	**23,641**	5,918
Selling and distribution expenses		**(89,587)**	(90,704)
General and administrative expenses		**(49,304)**	(44,980)
Profit from operations		**136,067**	122,180
Finance income		**3,346**	22,765
Finance costs		**(15,599)**	(28,609)
Net finance costs	6	**(12,253)**	(5,844)
Profit before taxation	7	**123,814**	116,336
Income tax	8	**(21,905)**	(19,285)
Profit for the year		**101,909**	97,051
Attributable to:			
Equity shareholders of the Company		**101,882**	96,820
Non-controlling interests		**27**	231
Profit for the year		**101,909**	97,051

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

(Expressed in Renminbi)

	Note	Year ended 31 December **2018** **RMB'000**	 2017 (Note) RMB'000
Other comprehensive income for the year (after tax)			
Item that may be reclassified subsequently to profit of loss:			
— Exchange differences on translation of financial statements of the Company and overseas subsidiaries		**12,603**	26
Other comprehensive income, net of tax		**12,603**	26
Total comprehensive income for the year			
Attributable to:			
Equity shareholders of the Company		**114,485**	96,846
Non-controlling interests		**27**	231
Total comprehensive income for the year		**114,512**	97,077
Earnings per share			
Basic and diluted (RMB cents)	11	**15**	16

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 2(c).

The notes on pages 66 to 132 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 12.

Consolidated Statement of Financial Position

(Expressed in Renminbi)

		As at 31 December	
		2018	2017
			(Note)
	Note	**RMB'000**	RMB'000
Non-current assets			
Property, plant and equipment	14	**154,445**	164,789
Land use rights	14	**116,625**	27,225
Intangible assets	15	**1,283**	1,483
Deferred tax assets	26(b)	**4,840**	4,974
Other assets		**2,304**	–
		279,497	198,471
Current assets			
Inventories	17	**140,787**	100,506
Trade receivables	18	**120,344**	109,115
Prepayments and other receivables	19	**47,819**	41,515
Restricted guarantee deposits	20	**13,707**	26,992
Cash and cash equivalents	21	**561,108**	474,621
		883,765	752,749
Current liabilities			
Trade and bills payables	22	**137,623**	119,698
Contract liabilities	23	**6,165**	–
Accruals and other payables	24	**193,334**	235,358
Bank and other loans	25	**100,000**	360,000
Current taxation	26(a)	**13,877**	16,922
		450,999	731,978
Net current assets		**432,766**	20,771
Total assets less current liabilities		**712,263**	219,242

Consolidated Statement of Financial Position *(Continued)*

(Expressed in Renminbi)

	Note	As at 31 December 2018 RMB'000	2017 (Note) RMB'000
Non-current liabilities			
Deferred income		**4,472**	4,865
Bank and other loans	25	**90,000**	31,600
Deferred tax liabilities	26(b)	**1,692**	–
		96,164	36,465
NET ASSETS		**616,099**	182,777
CAPITAL AND RESERVES			
Share capital	27(b)	**6,732**	1,274
Reserves	27(c)	**607,203**	179,291
Total equity attributable to equity shareholders of the Company		**613,935**	180,565
Non-controlling interests		**2,164**	2,212
TOTAL EQUITY		**616,099**	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 2(c).

Approved and authorised for issue by the board of directors on 29 March 2019 and signed on behalf of the board by:

Cao Changcheng
Director

Cao Dudu
Director

The notes on pages 66 to 132 form part of these financial statements.

Consolidated Statement of Changes in Equity

(Expressed in Renminbi)

	Note	Share capital RMB'000 (Note 27(b))	Share premium RMB'000 (Note 27(c)(i))	Statutory surplus reserves RMB'000 (Note 27(c)(ii))	Other reserves RMB'000 (Note 27(c)(iii))	Exchange reserve RMB'000 (Note 27(c)(iv))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Company								
Balance at 1 January 2017		71,633	–	33,072	5,582	(199)	10,977	121,065	5,544	126,609
Profit for the year		–	–	–	–	–	96,820	96,820	231	97,051
Other comprehensive income		–	–	–	–	26	–	26	–	26
Total comprehensive income for the year		–	–	–	–	26	96,820	96,846	231	97,077
Capital injection	27(b)	5,520	62,163	–	2,425	–	–	70,108	–	70,108
Acquisition of non-controlling interests in a subsidiary		–	–	–	2,800	–	–	2,800	(3,370)	(570)
Appropriation to statutory surplus reserve		–	–	9,818	–	–	(9,818)	–	–	–
Dividends declared	12	–	–	–	–	–	(18,222)	(18,222)	(193)	(18,415)
Effect on equity arising from the reorganisation	27(b)	(75,879)	7,423	–	(23,576)	–	–	(92,032)	–	(92,032)
Balance at 31 December 2017 (Note)		1,274	69,586	42,890	(12,769)	(173)	79,757	180,565	2,212	182,777
Impact on initial application of IFRS 9		–	–	(125)	–	–	(1,125)	(1,250)	–	(1,250)
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 year		**–**	**–**	**–**	**–**	**–**	**101,882**	**101,882**	**27**	**101,909**
Other comprehensive income		**–**	**–**	**–**	**–**	**12,603**	**–**	**12,603**	**–**	**12,603**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**12,603**	**101,882**	**114,485**	**27**	**114,512**
Capitalisation issue	27(b)	**3,770**	**(3,770)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Issuance of new shares		**1,688**	**322,767**	**–**	**–**	**–**	**–**	**324,455**	**–**	**324,455**
Appropriation to statutory surplus reserve		**–**	**–**	**11,306**	**–**	**–**	**(11,306)**	**–**	**–**	**–**
Dividends declared	12	**–**	**(4,320)**	**–**	**–**	**–**	**–**	**(4,320)**	**–**	**(4,320)**
Distribution to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(75)**	**(75)**
Balance at 31 December 2018		**6,732**	**384,263**	**54,071**	**(12,769)**	**12,430**	**169,208**	**613,935**	**2,164**	**616,099**

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See Note 2(c).

The notes on pages 66 to 132 form part of these financial statements.

Consolidated Cash Flow Statement

(Expressed in Renminbi)

	Note	Year ended 31 December 2018 RMB'000	2017 (Note) RMB'000
Operating activities			
Profit before taxation		**123,814**	116,336
Adjustments for:			
Depreciation and amortisation	7(b)	**16,809**	16,896
Realisation of deferred income		**(393)**	(210)
Net finance costs		**12,453**	7,662
Credit losses on doubtful debts	7(b)	**1,393**	1,480
Net loss on disposal of assets		**581**	66
Financial guarantee issued, net	5	**–**	(3,319)
Changes in working capital			
(Increase)/decrease in inventories		**(40,281)**	273
Decrease/(increase) in trade receivables		**10,093**	(9,252)
Increase in prepayments and other receivables		**(15,235)**	(4,446)
(Decrease)/increase in trade and bills payables		**(6,057)**	19,182
(Decrease)/increase in accruals and other payables		**(36,905)**	33,498
Increase in contract liabilities		**6,165**	–
Decrease/(increase) in restricted guarantee deposits, net		**13,285**	(26,992)
Cash generated from operations		**85,722**	151,174
PRC income tax paid	26	**(22,904)**	(17,968)
Net cash generated from operating activities		**62,818**	133,206
Investing activities			
Loans to related parties		**–**	(319,714)
Repaid by related parties		**11,425**	458,952
Payment for the purchase of property, plant and equipment, and land use rights		**(104,353)**	(9,078)
Decrease in pledged bank deposits		**–**	300,000
Government grants received relating to assets		**–**	4,410
Interest received		**2,205**	20,944
Net cash (used in)/generated from investing activities		**(90,723)**	455,514

Consolidated Cash Flow Statement *(Continued)*

(Expressed in Renminbi)

	Note	Year ended 31 December 2018 RMB'000	2017 (Note) RMB'000
Financing activities			
Capital injection and issuance of new shares		**335,016**	70,108
Proceeds from bank and other loans	21(b)	**190,000**	391,600
Loan from related parties	21(b)	**–**	21,118
Payment relating to expenses of issuing new shares		**(10,561)**	–
Repayments of bank and other loans	21(b)	**(391,600)**	(600,678)
Repayment of loans from related parties	21(b)	**(4,961)**	(92,341)
Borrowing costs paid	21(b)	**(15,910)**	(30,558)
Dividends paid		**(1,061)**	(24,824)
Distribution to non-controlling interests		**(75)**	(193)
Payment for the acquisition of Henan Fusen Pharmaceutical		**–**	(92,032)
Acquisition of non-controlling interests in a subsidiary		**–**	(570)
Net cash generated from/(used in) financing activities		**100,848**	(358,370)
Net increase in cash and cash equivalents		**72,943**	230,350
Cash and cash equivalents at the beginning of year	21	**474,621**	244,390
Effect of foreign exchange rate changes		**13,544**	(119)
Cash and cash equivalents at the end of year	21	**561,108**	474,621

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transitions method chosen, comparative information is not restated. See Note 2(c).

The notes on pages 66 to 132 form part of these financial statements.

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

The Company is an investment holding company. The Company and its subsidiaries (together, "the Group") are principally engaged in manufacturing and sale of pharmaceutical products. Details of the subsidiaries are set out in Note 16.

The shares of the Company were listed on The Stock Exchange of Hong Kong Limited on 11 July 2018 (the "Listing").

2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Significant accounting policies adopted by the Group are disclosed below.

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

(b) Basis of preparation of the financial statements

Pursuant to a group reorganisation completed on 30 March 2017 (the "Reorganisation") as described in Note 27(b)(i), the Company became the holding company of companies now comprising the Group.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements *(Continued)*

Prior to the Reorganisation, the principal activities of the Group were carried out by Henan Fusen Pharmaceutical Company Limited ("Henan Fusen Pharmaceutical"). As Henan Fusen Pharmaceutical was owned by Mr. Cao Changcheng ("Mr. Cao") and other shareholders, who are the same group of shareholders, before and after the Reorganisation and therefore there were no changes in the economic substance of the ownership and the business of the Group. The Reorganisation only involved inserting certain investment holding companies with no substantive operations. Accordingly, the Reorganisation has been accounted for using a principle similar to that for a reverse acquisition, with Henan Fusen Pharmaceutical treated as the acquirer for accounting purposes. The consolidated financial statements of the Group for the year ended 31 December 2017 have been prepared and presented as a continuation of the consolidated financial statements of Henan Fusen Pharmaceutical with the assets and liabilities of Henan Fusen Pharmaceutical recognised and measured at their historical carrying amounts prior to the Reorganisation. The share capital in the consolidated statement of changes in equity as at 1 January 2017 and prior to the Reorganisation represented the aggregate amount of the issued capital of Henan Fusen Pharmaceutical and the Company.

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

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries.

The financial statements are prepared on the historical cost basis.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

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.

(i) 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
Reserves and retained earnings	
Recognition of additional expected credit losses on:	
Trade receivables	(1,470)
Related tax	220
Net decrease in reserves and retained earnings at 1 January 2018	(1,250)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

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

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

(a) Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" (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).

For further details on the Group's accounting policy for accounting for credit losses, see Note 2(h)(i).

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

	RMB'000
Loss allowance at 31 December 2017 under IAS 39	(3,526)
Additional credit loss recognised at 1 January 2018 on:	
— Trade receivables	(1,470)
Loss allowance at 1 January 2018 under IFRS 9	(4,996)

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

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

(b) 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 IAS 39 and thus may not be comparable with the current period;

— The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group);

— The determination of the business model within which a financial asset is held;

— 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.

(ii) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

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 IASs 11 and 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

With the exception of the presentation of contract liabilities, which is further explained below, the adoption of IFRS 15 did not result in material adjustments to the opening balances at 1 January 2018 as the Group's previous revenue recognition accounting policies in other areas were generally consistent with the new requirements in material respects.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

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

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

(a) Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

(b) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

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

(b) Presentation of contract assets and liabilities (Continued)

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:

— "Receipts in advance from customers" amounting to RMB6,734,000, which were previously included in accruals and other payables (Note 24) are now included under contract liabilities (Note 23);

(c) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS 15 on 1 January 2018

The following tables summarise the estimated impact of adoption of IFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under IFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under IAS 18 and IAS 11 if those superseded standards had continued to apply to 2018 instead of IFRS 15. These tables show only those line items impacted by the adoption of IFRS 15:

	Amounts reported in accordance with IFRS 15 (A) RMB'000	Hypothetical amounts under IASs 18 and 11 (B) RMB'000	Difference: Estimated impact of adoption of IFRS 15 on 2018 (A)-(B) RMB'000
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of IFRS 15:			
CURRENT LIABILITIES			
Accruals and other payables	193,334	199,499	(6,165)
Contract liabilities	6,165	–	6,165

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies *(Continued)*

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

(c) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of IFRS 15 on 1 January 2018 (Continued)

	Amounts reported in accordance with IFRS 15 (A) RMB'000	Hypothetical amounts under IASs 18 and 11 (B) RMB'000	Difference: Estimated impact of adoption of IFRS 15 on 2018 (A)-(B) RMB'000
Line items in the reconciliation of profit before taxation to cash generated from operations for the year ended 31 December 2018 impacted by the adoption of IFRS 15:			
Profit before taxation	123,814	123,814	–
Decrease in accruals and other payables	(36,905)	(30,740)	(6,165)
Increase in contract liabilities	6,165	–	6,165

The significant differences arise as a result of the changes in accounting policies described above.

(iii) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note 2(m) or (n) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in subsidiary is stated at cost less impairment losses (see Note 2(h)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(h)).

— Buildings held for own use which are situated on leasehold land classified as held under operating leases (Note 2(g)); and

— Other items of property, plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives are as follows:

— Buildings and infrastructure	Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion
— Machinery and equipment	5–10 years
— Motor vehicles	5–10 years
— Others	5 years

Both the useful life of assets and its residual value, if any, are reviewed annually.

Construction in progress represents property, plant and equipment under construction and machinery and equipment under installation and testing. Construction in progress is stated at cost less impairment losses (see Note 2(h)). The cost includes cost of construction, cost of purchased plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction periods, to the extent that these are regarded as an adjustment to borrowing costs (see Note 2(t)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Property, plant and equipment *(Continued)*

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(f) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 2(m)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(h)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(h)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Technological know-how consists of rights to technological know-how for the development and production of general pharmaceutical products which are amortised on a straight-line basis over the estimated economic lives of 10 years commencing in the year when the rights are available for use.

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leased assets (Continued)

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property or is held for development for sale.

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments, and contract assets

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments, and contract assets *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs (Continued)

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments, and contract assets *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk (Continued)

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.

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(r)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments, and contract assets *(Continued)*

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk (Continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or contract 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.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments, and contract assets *(Continued)*

(B) Policy applicable prior to 1 January 2018 (Continued)

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence existed, an impairment loss was determined and recognised as follows:

— For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— land use rights;

— intangible assets;

— other assets; and

— investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Credit losses and impairment of assets (Continued)

(ii) Impairment of other non-current assets (Continued)

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Note 2(h)(ii)).

(i) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Inventories and other contract costs *(Continued)*

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory.

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the costs are expensed when incurred. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2(r).

(j) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(r)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(h)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(k)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2(r)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(k)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(r)).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(j)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(h)(i)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in Note 2(h)(i).

(m) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(t)).

(n) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as expenses in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to he extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Income tax *(Continued)*

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of products

Revenue is recognised when the products delivered are accepted by the customers and control over the goods is considered to have been transferred to the customers. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

In the comparative period, revenue from sales of pharmaceutical products was recognised when the goods were delivered to the customers' premises, which was taken to be the point in time when the customer had accepted the goods and the related risks and rewards of ownership.

(ii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Revenue and other income *(Continued)*

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income consequently are effectively recognised in profit or loss over the useful life of the asset as other income.

(iv) Income from financial guarantees issued

Income from financial guarantees issued is recognised over the term of the guarantees.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the year in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

a. has control or joint control over the Group;

b. has significant influence over the Group; or

c. is a member of the key management personnel of Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

a. The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

b. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

c. Both entities are joint ventures of the same third party.

d. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

e. The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

f. The entity is controlled or jointly controlled by a person identified in Note 2(u)(i).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Related parties *(Continued)*

(ii) An entity is related to the Group if any of the following conditions applies: (Continued)

g. A person identified in Note 2(u)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

h. The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set out in Note 2. Other key sources of estimation uncertainty in the preparation of the financial statements are as follows:

(a) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. The Group reviews at the end of each reporting period the estimated useful lives of an asset and its residual value, if any, based on the Group's historical experience with similar assets and taking into account anticipated technological changes.

The depreciation expense for future period is adjusted if there are significant changes from previous estimates.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(b) Impairment of non-financial assets

The Group tests whether non-financial assets have suffered from any impairment, in accordance with the accounting policy stated in Note 2(h)(ii). The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Management estimates value in use based on estimated discounted pre-tax future cash flows of the cash generating unit at the lowest level to which the asset belongs. If there is any significant change in management's assumptions, including discount rates or growth rates in the future cash flow projection, the estimated recoverable amounts of the non-financial assets and the Group's results would be significantly affected. Such impairment losses are recognised in the statement of profit or loss and other comprehensive income. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-financial assets.

(c) Allowance for credit losses

Management estimates credit loss allowance using a provision matrix based on the Group's historical credit loss experience, included customer credit-worthiness, and historical write-off experience, and 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. If the financial conditions of the customers were to deteriorate, additional allowance may be required.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of a similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions. Management reassesses these estimates at the end of each reporting period.

(e) Income tax

The Group is mainly subject to PRC Enterprise Income Tax. Judgement is required in determining the provision for income tax. There are transactions during the ordinary course of business, for which calculation of the ultimate tax determination is uncertain. Where the final outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Recognition of deferred tax depends on the management's expectation of future taxable profit that will be available. The outcome of their actual utilisation may be different.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the manufacturing and sale of pharmaceutical products.

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Shuanghuanglian Oral Solutions	**255,237**	257,533
Shuanghuanglian Injections	**86,103**	92,837
Others	**120,721**	102,210
	462,061	452,580

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's consolidated revenue in each of financial year ended 31 December 2018 and 2017. Details of concentrations of credit risk are set out in Note 28(a).

No remaining performance obligation under existing contracts has been disclosed as performance obligations under the Group's existing contracts has an original expected duration of one year or less, thus the Group has applied the practical expedient in paragraph 121 of IFRS 15 to its sales contracts.

(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 based on geographical locations of the customers and assets is provided.

5 OTHER NET INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Material and scrap sales income, net	**1,843**	1,679
Rental income	**505**	410
Financial guarantee issued, net	**–**	3,319
Government grants	**9,339**	210
Write-off of long-outstanding payables	**11,476**	–
Others	**478**	300
	23,641	5,918

6 NET FINANCE COSTS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Interest income on funding to related parties	**–**	21,325
Net foreign exchange gain	**941**	–
Interest income on bank deposit	**2,405**	1,440
Finance income	**3,346**	22,765
Interest expense on bank loans	**15,599**	28,609
Finance cost	**15,599**	28,609
Net finance costs	**(12,253)**	(5,844)

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries and wages	**54,362**	56,150
Contributions to defined contribution retirement schemes*	**7,190**	6,323
Bonuses and other benefits	**41,921**	66,477
	103,473	128,950

* Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated based on certain percentages of the average employee salary as agreed by the respective local municipal governments to the scheme to fund the retirement benefits of the employees.

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

(b) Other items

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cost of inventories*	**214,153**	201,427
Amortisation of intangible assets	**200**	200
Depreciation of property, plant and equipment	**15,909**	15,996
Amortisation of land use rights	**700**	700
Credit losses on trade and other receivables	**1,393**	1,480
Research and development costs	**11,021**	3,157
Auditors' remuneration — audit services	**3,500**	–

* Cost of inventories includes RMB48,736,000 in 2018 (2017: RMB51,651,000), relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above.

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

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Current tax — PRC Enterprise Income Tax		
Provision for the year	**19,859**	19,347
Deferred tax		
Origination and reversal of temporary differences	**2,046**	(62)
	21,905	19,285

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

The Group has no assessable profit in Hong Kong for 2018 (2017: Nil) and is not subject to any Hong Kong profits tax. Hong Kong profits tax rate of 2018 is 16.5% (2017: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

In accordance with the Enterprise Income Tax Law ("Income Tax Law") of the PRC, enterprise income tax rate for the Group's PRC subsidiaries for 2018 is 25% (2017: 25%). According to the relevant PRC income tax law, the Company's subsidiary, Henan Fusen Pharmaceutical was certified as a New and High Technology Enterprise in Henan since 2012, and is entitled to a preferential income tax rate of 15% (2017: 15%). The current certification of New and High Technology Enterprise held by Henan Fusen Pharmaceutical will be expired on 12 September 2021.

According to the Income Tax Law and its implementation rules, dividends receivable by non-PRC resident investors from PRC entities are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profit earned since 1 January 2008. Cloud Dollar Investments Limited and Wealth Depot (Hong Kong) Limited, subsidiaries of the Group, are subject to PRC dividend withholding tax at 10% on dividends receivables from PRC subsidiaries.

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before taxation	**123,814**	116,336
Tax calculated at statutory tax rates applicable to profits in the respective jurisdictions	**30,953**	29,084
Tax effect of preferential income tax rates applicable to a PRC subsidiary	**(13,252)**	(11,229)
Non-deductible expense	**13**	1,481
Unused tax losses not recognised	**2,499**	447
Non-taxable income	**–**	(498)
PRC dividends withholding tax	**1,692**	–
Income tax expense	**21,905**	19,285

9 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits In kind RMB'000	Discretionary bonus RMB'000	Retirement Scheme contributions RMB'000	31 December 2018 total RMB'000
Chairman and executive director					
Mr. Cao	–	101	–	3	104
Executive directors					
Mr. Hou Taisheng	–	87	–	6	93
Mr. Chi Yongsheng	–	92	–	6	98
Ms. Meng Qingfen	–	77	–	6	83
Mr. Cao Dudu	–	242	–	9	251
Non-executive director					
Mr. Wang Jianhang	–	–	–	–	–
Independent non-executive directors					
Mr. Ho Ka Chun	77	–	–	–	77
Mr. Shang Lei	77	–	–	–	77
Mr. Sze Wing Chun	77	–	–	–	77
	231	599	–	30	860

Mr. Ho Ka Chun, Mr. Shang Lei and Mr. Sze Wing Chun are appointed on 14 June 2018.

9 DIRECTORS' EMOLUMENTS *(Continued)*

	Directors' Fees RMB'000	Salaries, allowances and benefits In kind RMB'000	Discretionary bonus RMB'000	Retirement Scheme contributions RMB'000	31 December 2017 total RMB'000
Chairman and executive director					
Mr. Cao	–	112	–	4	116
Executive directors					
Mr. Hou Taisheng	–	82	–	5	87
Mr. Fu Jiancheng	–	88	–	5	93
Mr. Chi Yongsheng	–	89	–	5	94
Ms. Meng Qingfen	–	99	–	5	104
Mr. Cao Dudu	–	–	–	–	–
Non-executive Director					
Mr. Wang Jianhang	–	–	–	–	–
	–	470	–	24	494

All of the directors were key management personnel of the Group during the reporting periods and their emoluments disclosed above include those for services rendered by them as the key management personnel.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the 5 individuals with the highest emoluments, none (2017: none) of them are directors whose emoluments are disclosed in Note 9. The aggregate of the emoluments in respect of the 5 individuals are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries and allowances	**1,407**	1,428
Bonuses and other benefits	**3,036**	5,338
Contributions to pension schemes	**18**	36

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

The emoluments of the 5 (2017: 5) individuals with the highest emoluments are within the following bands:

	Year ended 31 December	
	2018	2017
	Number of individuals	Number of individuals
HK$ Nil–HK$1,000,000	**3**	–
HK$1,000,001–HK$1,500,000	**1**	3
HK$1,500,001–HK$2,000,000	**1**	1
HK$2,000,001–HK$2,500,000	**–**	1

11 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB101,882,000 (2017: RMB96,820,000) and the weighted average of 694,794,521 ordinary shares (2017: 600,000,000 shares*) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2018 '000
Issued ordinary shares at 1 January after taking effect of the Capitalisation issue*	600,000
Effect of issue of shares upon initial public offering (Note 27(b)(iii))	94,795
Weighted average number of ordinary shares at 31 December	694,795

* The weighted average number of shares in issue in 2018 and in 2017 were based on the assumption that the 600,000,000 ordinary shares of the Company had been issued throughout the year, by retrospectively adjusting for the effect of the Group's Reorganisation and Capitalisation Issue of the Company that are deemed to have become effective since 1 January 2017 as detailed in Note 27.

There were no dilutive potential ordinary shares during the year ended 31 December 2018 and 2017 and, therefore, diluted earnings per share are the same as the basic earnings per share.

12 DIVIDENDS

Dividends payable to shareholders of the Company attributable to the year:

	2018 **RMB'000**	2017 RMB'000
Interim dividend declared of RMB0.54 cents (equivalent to HKD0.62 cents) per ordinary share	**4,320**	N/A
Final dividend proposed after the end of the reporting period of RMB0.74 cents (equivalent to HKD0.86 cents) per ordinary share	**5,920**	N/A

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

During the year ended 31 December 2017, a dividend of RMB18,222,000 declared and paid by Henan Fusen Pharmaceutical to its then equity holders.

13 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.

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.

14 PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

	Buildings and infrastructure RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture, fixtures, and other equipment RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Land use rights RMB'000	Total RMB'000
Cost:								
At 1 January 2017	171,787	69,995	10,104	5,274	16	257,176	34,996	292,172
Additions	1,054	5,348	–	138	2,653	9,193	–	9,193
Transfers from construction in progress	1,078	–	–	–	(1,078)	–	–	–
Disposals	–	(376)	–	(4)	–	(380)	–	(380)
At 31 December 2017 and at 1 January 2018	**173,919**	**74,967**	**10,104**	**5,408**	**1,591**	**265,989**	**34,996**	**300,985**
Additions	**–**	**3,278**	**64**	**96**	**2,708**	**6,146**	**90,100**	**96,246**
Transfers from construction in progress	**496**	**–**	**–**	**–**	**(496)**	**–**	**–**	**–**
Disposals	**(1,629)**	**–**	**–**	**–**	**–**	**(1,629)**	**–**	**(1,629)**
At 31 December 2018	**172,786**	**78,245**	**10,168**	**5,504**	**3,803**	**270,506**	**125,096**	**395,602**
Accumulated amortisation, depreciation and impairment:								
At 1 January 2017	(47,590)	(30,791)	(5,162)	(1,975)	–	(85,518)	(7,071)	(92,589)
Charge for the year	(8,626)	(6,241)	(783)	(346)	–	(15,996)	(700)	(16,696)
Written back on disposals	–	311	–	3	–	314	–	314
At 31 December 2017 and at 1 January 2018	**(56,216)**	**(36,721)**	**(5,945)**	**(2,318)**	**–**	**(101,200)**	**(7,771)**	**(108,971)**
Charge for the year	**(8,048)**	**(6,916)**	**(738)**	**(207)**	**–**	**(15,909)**	**(700)**	**(16,609)**
Written back on disposals	**1,048**	**–**	**–**	**–**	**–**	**1,048**	**–**	**1,048**
At 31 December 2018	**(63,216)**	**(43,637)**	**(6,683)**	**(2,525)**	**–**	**(116,061)**	**(8,471)**	**(124,532)**
Net book value:								
At 31 December 2017	117,703	38,246	4,159	3,090	1,591	164,789	27,225	192,014
At 31 December 2018	**109,570**	**34,608**	**3,485**	**2,979**	**3,803**	**154,445**	**116,625**	**271,070**

Notes:

(i) All property, plant and equipment owned by the Group are located in the PRC.

(ii) Land use rights represent prepaid operating lease payment for land use rights in the PRC. As at 31 December 2018, the remaining periods of the land use rights ranged from 39 to 43 years.

In November 2018, the Group paid RMB90,100,000 (2017: Nil) to obtain certain land use right in the PRC for 40 years through public land auction. As at 31 December 2018, the Group was applying for the relevant land use certification.

14 PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS (Continued)

Notes: (Continued)

(iii) As at 31 December 2018 and 2017, certain of the Group's bank borrowings were secured by the Group's property, plant and equipment and land use rights, which had an aggregate carrying amount of RMB79,688,000 and RMB92,287,000 as of 31 December 2018 and 2017, respectively.

(iv) Construction in progress comprises of costs incurred on property, plant and equipment not yet completed at the end of each reporting period.

15 INTANGIBLE ASSETS

	Technological know-how RMB'000
Cost:	
At 1 January 2017	2,000
Additions	–
At 31 December 2017	**2,000**
Additions	**–**
At 31 December 2018	**2,000**
Accumulated amortisation:	
At 1 January 2017	(317)
Charge for the year	(200)
At 31 December 2017	**(517)**
Charge for the year	**(200)**
At 31 December 2018	**(717)**
Net book value:	
At 31 December 2017	1,483
At 31 December 2018	**1,283**

The amortisation charge is included in "General and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

16 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Company name	Place and date of incorporation/ establishment and business, nature of legal entity	Particulars of issued share capital/paid up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Jinli International Limited	British Virgin Islands 13 November 2012	USD1	100%	100%	–	Investing holding company
Wealth Depot (Hong Kong) Limited	Hong Kong 5 October 2016	HKD500,000	100%	–	100%	Investing holding company
Cloud Dollar Investments Limited	Hong Kong 1 November 2012	HKD1	100%	–	100%	Investing holding company
Nanyang Hengsheng Enterprise Management Services Limited* 南陽衡盛企業管理服務有限公司	The PRC 12 December 2012 Limited liability company	USD8,000,000	100%	–	100%	Investing holding company
Henan Fusen Pharmaceutical Company Limited* 河南福森藥業有限公司	The PRC 10 October 2003 Limited liability company	RMB76,759,800	100%	–	100%	Manufacturing and sale of pharmaceutical products
Henan Xichuan Fushan Medicinal Packaging Company Limited* ("Fushan Pharmaceutical Package Material") 河南省淅川伏山藥用包材有限責任公司	The PRC 31 July2003 Limited liability company	RMB2,600,000	86%	–	86%	Manufacturing and sale of pharmaceutical package materials

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

17 INVENTORIES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Raw materials	**54,577**	43,238
Work in progress	**13,217**	11,398
Finished goods	**72,993**	45,870
	140,787	100,506

17 INVENTORIES (Continued)

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Carrying amount of inventories sold		
— charged to cost of sales	**210,744**	200,634
— charged to other net income	**3,409**	793
Cost of inventories	**214,153**	201,427

18 TRADE RECEIVABLES

		31 December	1 January	31 December
		2018	2018	2017
		RMB'000	RMB'000	RMB'000
Bills receivable*		**59,770**	52,418	52,418
Trade debtors		**66,760**	60,223	60,223
Less: allowance for credit loss	Note	**(6,186)**	(4,996)	(3,526)
		120,344	107,645	109,115

Note: Upon the adoption of IFRS 9, an opening adjustment as at 1 January 2018 was made to recognise additional ECLs on bills and trade receivables (see Note 2(c)(i)).

* At 31 December 2018, the Group's bills receivable of RMB50,494,000 (2017: RMB25,859,000) were endorsed to suppliers. 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.

18 TRADE RECEIVABLES *(Continued)*

Aging analysis

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current to 3 months	**97,113**	96,786
3 to 6 months	**15,954**	7,851
6 to 12 months	**6,982**	3,986
Over 12 months	**295**	492
	120,344	109,115

Trade debtors and bills receivable are due within 1 month to 6 months from the date of billing. No interests are charged on the trade receivables. Further details on the Group's credit policy are set out in Note 28(a).

19 PREPAYMENTS AND OTHER RECEIVABLES

		As at 31 December	
		2018	2017
	Note	**RMB'000**	RMB'000
Amounts due from related parties	30	**1,052**	12,477
Prepayments to related parties	30	**12,765**	–
Prepayments to third parties		**5,514**	5,438
Other receivables		**28,488**	23,600
		47,819	41,515

20 RESTRICTED GUARANTEE DEPOSITS

Restricted guarantee deposits are bank deposits guaranteed to bank for issuance of bank bills.

21 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise of:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Bank deposits	**561,108**	474,621
	561,108	474,621

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank and other loans RMB'000 (Note 25)	Amounts due to related parties RMB'000 (Note 24)	Interests payable RMB'000 (Note 24)	Total RMB'000
At 1 January 2018	**391,600**	**6,567**	**1,574**	**399,741**
Changes from financing cash flows:				
Proceeds from new bank loans	**190,000**	**–**	**–**	**190,000**
Repayment of bank loans	**(391,600)**	**–**	**–**	**(391,600)**
Repayment of loans from related parties	**–**	**(4,961)**	**–**	**(4,961)**
Borrowing costs paid	**–**	**–**	**(15,910)**	**(15,910)**
Total changes from financing cash flows	**(201,600)**	**(4,961)**	**(15,910)**	**(222,471)**
Other changes				
Interest expense on bank loans (Note 6)	**–**	**–**	**15,599**	**15,599**
Total other changes	**–**	**–**	**15,599**	**15,599**
At 31 December 2018	**190,000**	**1,606**	**1,263**	**192,869**

21 CASH AND CASH EQUIVALENTS *(Continued)*

(b) Reconciliation of liabilities arising from financing activities *(Continued)*

	Bank and other loans RMB'000 (Note 25)	Amounts due to related parties RMB'000 (Note 24)	Interests payable RMB'000 (Note 24)	Total RMB'000
At 1 January 2017	600,678	77,790	3,523	681,991
Changes from financing cash flows:				
Proceeds from new bank loans	391,600	–	–	391,600
Repayment of bank loans	(600,678)	–	–	(600,678)
Loan from related parties	–	21,118	–	21,118
Repayment of loans from related parties	–	(92,341)	–	(92,341)
Borrowing costs paid	–	–	(30,558)	(30,558)
Total changes from financing cash flows	(209,078)	(71,223)	(30,558)	(310,859)
Other changes				
Interest expense on bank loans (Note 6)	–	–	28,609	28,609
Total other changes	–	–	28,609	28,609
At 31 December 2017	391,600	6,567	1,574	399,741

22 TRADE AND BILLS PAYABLES

Trade and bills payables are analysed as follows:

	Note	As at 31 December **2018** **RMB'000**	2017 RMB'000
Bills payables		**10,448**	26,992
Trade payables			
Third parties		**126,773**	85,578
Amounts due to related parties	30	**402**	7,128
		137,623	119,698

22 TRADE AND BILLS PAYABLES (Continued)

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current to 3 months	**113,082**	98,874
3 to 6 months	**10,250**	6,483
6 to 12 months	**6,166**	7,825
More than 1 year	**8,125**	6,516
	137,623	119,698

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

23 CONTRACT LIABILITIES

	Note	**31 December 2018 RMB'000**	1 January 2018 (i) RMB'000	31 December 2017 RMB'000
Receipts in advance from customers	(ii)	**6,165**	6,734	–

Notes:

(i) The Group has initially applied IFRS 9 and IFRS 15 using the cumulative effect method and adjusted the opening balances as at 1 January 2018.

(ii) Upon the adoption of IFRS 15, these amounts were reclassified from "accruals and other payables" (Note 24) to contract liabilities (see Note 2(c)(ii)).

Receipts in advance from customers primarily represent advances made by customers for purchases of products before the Group satisfying performance obligations. The Group normally requires certain customers to pay 30%–100% deposits upfront. It would be recognised as revenue upon sale of products.

RMB5,641,000 of the contract liabilities as of 1 January 2018 has been recognised as revenue in 2018. All the balances of contract liabilities at 31 December 2018 are expected to be recognised as revenue within one year.

24 ACCRUALS AND OTHER PAYABLES

	Note	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Receipts in advance	(i)	**–**	–	6,734
Rebate payables		**24,277**	22,647	22,647
Accrued charges		**24,800**	12,279	12,279
Amounts due to related parties	30	**1,606**	6,567	6,567
Dividends payable		**6,448**	3,189	3,189
Other tax payables		**48,345**	46,771	46,771
Salary, bonus and welfare payable		**45,271**	75,527	75,527
Payables to contractors and equipment suppliers		**8,845**	14,648	14,648
Deposits from sale staff		**5,802**	5,709	5,709
Interests payable		**1,263**	1,574	1,574
Housing fund collected from staff		**4,302**	4,302	4,302
Fund from local finance bureau	*	**5,887**	5,887	5,887
Payables to suppliers	**	**368**	10,526	10,526
Others		**16,120**	18,998	18,998
		193,334	228,624	235,358

Notes:

(i) As a result of the adoption of IFRS 15, receipts in advance from customers is included in contract liabilities and disclosed in Note 23 (see Note 2(c)(ii)).

* These are interest free and repayable on demand.

** The Group has written-off certain long-aged payables to various suppliers in 2018.

All of the accruals and other payables are expected to be settled or recognised as profit or loss within one year or are repayable on demand.

25 BANK AND OTHER LOANS

	Note	2018 Effective interest rate	2018 RMB'000	2017 Effective interest rate	2017 RMB'000
Current					
Borrowings from banks					
— secured	(i)	**5.03%**	**100,000**	4.79–5.35%	60,000
— unsecured	(ii)		**–**	4.57–6.09%	300,000
Total			**100,000**		360,000
Non-current					
Borrowings from banks					
— secured	(i)	**5.15%**	**90,000**		–
— unsecured	(ii)		**–**	7.02%	31,600
Total			**90,000**		31,600

The borrowings were repayable as follows:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000
Within 1 year or on demand	**100,000**	360,000
After 1 year but within 2 years	**90,000**	–
After 2 years but within 5 years	**–**	31,600
	190,000	391,600

Notes:

(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 31 December 2017, loans of RMB40,000,000 was also guaranteed by Mr. Cao, Ms. Quan Xiufeng (Mr. Cao's spouse) and other related parties. The guarantee was released during the year ended 31 December 2018.

(ii) As at 31 December 2017, these borrowings were guaranteed by third parties and/or related parties.

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
At 1 January	**16,922**	15,543
Provision for PRC Income Tax for the year	**19,859**	19,347
PRC Income Tax paid during the year	**(22,904)**	(17,968)
At 31 December	**13,877**	16,922

(b) Movement of each component of deferred tax assets and liabilities:

(i) The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Government grants	Allowance of credit loss (Note)	Depreciation and amortization	Impairment for property, plant and equipment	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:						
At 1 January 2017	98	393	2,585	600	1,236	4,912
(Charged)/credited to profit or loss	(32)	222	(215)	(264)	351	62
At 31 December 2017	66	615	2,370	336	1,587	4,974
Impact on initial application of IFRS 9	–	220	–	–	–	220
At 1 January 2018	66	835	2,370	336	1,587	5,194
(Charged)/credited to profit or loss	(32)	93	(215)	(264)	64	(354)
At 31 December 2018	34	928	2,155	72	1,651	4,840

Note: Upon the initial application of IFRS 9, the Group has recognised deferred tax assets on the additional credit losses recognised under the ECL model (see Note 2(c)(i)).

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(b) Movement of each component of deferred tax assets and liabilities: *(Continued)*

(ii) The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	PRC dividend withholding tax RMB'000
At 1 January 2017	–
Charged to profit or loss	–
At 31 December 2017 and 1 January 2018	–
Charged to profit or loss (Note 26 (d))	1,692
At 31 December 2018	1,692

The above recognised deferred tax assets and liabilities cannot be set off.

(c) Deferred tax assets not recognised

As at 31 December 2018, the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB9,996,000 (2017: RMB1,790,000) as it is not probable that future taxable profits against which the losses can be utilised will be available.

(d) Deferred tax liabilities not recognised

Pursuant to Enterprise Income Tax Law in the PRC and its related regulations, the Group is subject to withholding tax at 10% (unless reduced by tax treaties/arrangements) on dividends receivable from its PRC subsidiaries in respect of their profits generated and on distribution of statutory surplus reserve upon liquidation.

As at 31 December 2018, temporary differences relating to the reserves of the Company's PRC subsidiaries amounted RMB220,292,000 (2017: RMB124,440,000), comprised retained earnings of RMB166,096,000 (2017: RMB81,550,000) and statutory surplus reserve of RMB54,196,000 (2017: RMB42,890,000).

26 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(d) Deferred tax liabilities not recognised *(Continued)*

The Company controls the dividend policy of these subsidiaries and it has been determined that 85% of the profit for the year ended 31 December 2018 (2017: the retained earnings and statutory surplus reserve of the PRC subsidiaries before 31 December 2017) will not be distributed in the foreseeable future. Also the Company has no plan to liquidate these subsidiaries in the foreseeable future. As a result, no deferred tax liability was recognised for the reserves of PRC subsidiaries as mentioned above.

27 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Note	Share capital RMB'000	Share premium RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2017		753	–	71	–	824
Loss for the year		–	–	–	(315)	(315)
Other comprehensive income		–	–	(337)	–	(337)
Capital injection	27(b)	521	69,586	–	–	70,107
Balance at 31 December 2017 and 1 January 2018		1,274	69,586	(266)	(315)	70,279
Loss for the year		–	–	–	(9,422)	(9,422)
Other comprehensive income		–	–	13,834	–	13,834
Capital injection	27(b)	3,770	(3,770)	–	–	–
Issuance of new shares		1,688	322,767	–	–	324,455
Dividends declared		–	(4,320)	–	–	(4,320)
Balance at 31 December 2018		6,732	384,263	13,568	(9,737)	394,826

27 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Share capital

Company

	2018		2017	
	No. of shares	**Amount RMB'000**	No. of shares	Amount RMB'000
Authorised — ordinary shares of HK$0.01 each:				
At 1 January	**300,000,000**	**2,498**	300,000,000	2,498
Increase (ii)	**1,700,000,000**	**13,856**	–	–
At 31 December	**2,000,000,000**	**16,354**	300,000,000	2,498
Ordinary shares, issued and fully paid:				
At 1 January	**153,246,304**	**1,274**	92,032,000	753
Capitalisation issue (iii)	**446,753,696**	**3,770**	61,214,304	521
Initial public offering	**200,000,000**	**1,688**	–	–
At 31 December	**800,000,000**	**6,732**	153,246,304	1,274

The holders of ordinary shares as at 31 December 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.

(i) The Company was incorporated as an exempted company under the laws of the Cayman Islands with limited liability on 18 January 2013. Upon incorporation, the initial authorised share capital was HK$380,000 and divided into 38,000,000 shares with a par value of HK$0.01 each, of which one share was allotted and issued at par. One 26 February 2013, the Company allotted and issued 780 shares to Full Bliss fully paid at par as consideration for the acquisition of one share in Jinli International Limited.

On 24 June 2013, the Company allotted and issued 70,879,219 shares to Full Bliss Holdings Limited ("Full Bliss") at a cash consideration of HK$708,792 (RMB565,000) which was fully paid up.

27 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Share capital *(Continued)*

(i) *(Continued)*

On 21 November 2016, the issued share capital of the Company was increased from HK$708,800 to HK$920,320 (RMB753,000) by the subscription of additional 21,152,000 shares by Full Bliss. Immediately after the said share subscription and as at 31 December 2016, the number of shares in issue increased to 92,032,000 shares, with a par value of HK$0.01.

On 5 December 2016, Wealth Depot (Hong Kong) Limited agreed to acquire approximately 6.66% equity interest in Henan Fusen Pharmaceutical at a cash consideration of RMB7,481,900. The full amount was injected into Henan Fusen Pharmaceutical in March 2017, of which RMB5,057,400 was credited as the share capital of Henan Fusen Pharmaceutical and RMB2,424,500 was credited as capital reserve (included in other reserve). On 19 March 2017, the Company allotted and issued 6,566,672 shares to Wealth Depot Limited to acquire 100% equity interest of Wealth Depot (Hong Kong) Limited. Immediately after the said share subscription, the number of shares in issue increased to 98,598,672 shares, with a par value of HK$0.01.

On 19 March 2017, the Company, through its subsidiary, acquired approximately 93.34% of the equity interest in Henan Fusen Pharmaceutical at a cash consideration of RMB92,032,000. Such consideration was fully settled on 29 March 2017.

Immediately after the above equity transfer, Henan Fusen Pharmaceutical became the wholly-owned subsidiary of the Company and the Reorganisation was completed.

On 10 August 2017, the Company allotted and issued 44,441,428 shares to One Victory Investments Limited (One Victory), which is wholly owned by Mr. Cao Dudu and 10,206,204 shares to First Joint Elegant Limited at a consideration of RMB50,929,876 and RMB11,696,310 respectively, of which RMB463,139 was credited as the share capital of the Company and RMB62,163,047 was credited as the share premium. Immediately after such issue and allotment, the total number of shares in issue was 153,246,304. The said consideration was duly settled by One Victory and First Joint Elegant on 2 December, 2017 and 7 November, 2017, respectively.

(ii) 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.

27 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Share capital *(Continued)*

(iii) On 11 July 2018, 446,753,696 Shares were allocated to the existing shareholders of the Company by way of capitalisation of the sum of HK$4,467,534 (equivalent to RMB3,770,000) standing to the credit of the share premium account of the Company.

On the same date, 200,000,000 new shares were issued by way of initial public offering. The proceeds less the listing costs directly attributable to the issue of shares, amount to HK$384,471,000 (equivalent to RMB324,455,000), with HK$2,000,000 (equivalent to RMB1,688,000) representing the par value of these ordinary shares, were credited to the Company's share capital account. The remaining proceeds amount to HK$382,471,000 (equivalent to RMB322,767,000) were credited to the Company's share premium account. The share capital of the Company was increased to HK$8,000,000 divided into 800,000,000 shares of HK$0.01 each.

(c) Reserves

(i) Share premium

Share premium represented the difference between the par value of shares issued and the amount of net proceeds received from its shareholders of the Company.

(ii) Statutory surplus reserves

Pursuant to applicable PRC regulations, all PRC subsidiaries of the Group are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) to the statutory surplus reserve until such reserve reaches 50% of the registered capital of each relevant PRC subsidiary. The transfer to the statutory surplus reserve must be made before distribution of dividends to shareholders. The statutory surplus can be utilised to offset accumulated losses or to increase capital of the subsidiaries and is non-distributable other than in liquidation.

(iii) Other reserves

Other reserves as at the end of the reporting period mainly included contributions by the shareholders, payment to the then equity holders upon the Reorganisation as described in Note 27(a) after eliminating the share capital of Henan Fusen Pharmaceutical, and the difference between the considerations paid by the Group and the share of net assets value of the subsidiary acquired from the non-controlling interests.

(iv) Exchange reserve

The exchange reserve comprises exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with accounting policies set out in Note 2(s).

(d) Distributability of reserves

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the Companies Law of the Cayman Islands, was RMB388,094,000 (2017: RMB69,005,000).

27 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) less cash and bank deposits. Adjusted capital comprises all components of equity.

The Group's adjusted net debt-to-capital ratio at 31 December 2018 and 2017 was as follows:

		As at 31 December	
		2018	2017
	Note	**RMB'000**	RMB'000
Current liabilities:			
Bank and other loans	25	**100,000**	360,000
Non-current liabilities:			
Bank and other loans	25	**90,000**	31,600
Total debt		**190,000**	391,600
Less: Cash and cash equivalents		**561,108**	474,621
Restricted guarantee deposits	20	**13,707**	26,992
Adjusted net debt		**(384,815)**	(110,013)
Total equity		**616,099**	182,777
Adjusted net debt-to-equity ratio		**N/A**	N/A

Neither the Company nor its subsidiary are subject to externally imposed capital requirements.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from amount due from related parties, other receivables and bank deposits is limited because the counterparties are related parties, banks and financial institutions, for which the Group considers to have low credit risk.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 0.6% (2017: 0.8%) and 2.0% (2017:1.9%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group normally requires certain customers to pay 30%- 100% deposits upfront and the remaining trade receivables are normally due within 1 to 6 months from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

(a) Credit risk *(Continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables and contract assets as at 31 December 2018:

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current–3 months past due	1.3%	37,735	480
4–6 months past due	8%	17,357	1,403
7–12 months past due	20%	8,837	1,767
More than 1 year past due	90%	2,831	2,536
		66,760	6,186

Expected loss rates are based on historical loss experience. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under IAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see Note 2(h)(i) — policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of RMB13,815,000 were determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 RMB'000
Neither past due nor impaired	46,408

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default. Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

(a) Credit risk *(Continued)*

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2018 RMB'000	2017 RMB'000
Balance at 31 December 2017 under IAS 39	**3,526**	
Impact on initial application of IFRS 9	**1,470**	
Balance at 1 January	**4,996**	2,453
Credit losses recognised during the year	**1,190**	1,073
Balance at 31 December	**6,186**	3,526

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	As at 31 December 2018 contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amounts in the consolidated statement of financial position RMB'000
Bank and other loans	105,209	91,095	–	–	196,304	190,000
Trade and bills payables	137,623	–	–	–	137,623	137,623
Accruals and other payables	193,334	–	–	–	193,334	193,334
Total	436,166	91,095	–	–	527,261	520,957

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT (Continued)

(b) Liquidity risk (Continued)

	As at 31 December 2017 contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amounts in the consolidated statement of financial position RMB'000
Bank and other loans	370,238	2,249	33,103	–	405,590	391,600
Trade and bills payables	119,698	–	–	–	119,698	119,698
Accruals and other payables	228,624	–	–	–	228,624	228,624
Total	718,560	2,249	33,103	–	753,912	739,922

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank loans. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's net interest-bearing liabilities (being interest-bearing financial liabilities less restricted guarantee deposits and bank deposits) at the end of the year:

	2018		2017	
	Effective interest rate	**RMB'000**	Effective interest rate	RMB'000
Net fixed rate borrowings:				
Bank loans	**5.03–5.15%**	**190,000**	4.57–7.02%	391,600
Less: Restricted guarantee deposits	**1.30%**	**13,707**	1.30%	26,992
Bank deposits	**1.35%**	**150,000**	–	–
Total		**26,293**		364,608

28 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

Increases in interest rates will increase the cost of new borrowing, and therefore could have an adverse effect on the Group's financial position. For the year ended 31 December 2018 and 2017, if interest rates on the short-term fixed rate borrowings had increased/decreased 50 basic points while all other variables are held constant, the effect on profit after tax is approximately RMB170,000 and RMB1,530,000 respectively.

(d) Currency risk

The Group mainly operates in the PRC and is exposed to foreign currency risk, primarily from cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the operations to which the transaction relate. The currencies giving rise to this risk is primarily HKD.

The following table details the Group's major exposure as at 31 December 2018 to currency risk arising from assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	Exposure to foreign currencies (expressed in RMB) As at 31 December 2018	
	HKD	USD
	RMB'000	RMB'000
Cash and cash equivalents	98,134	24,050

As at 31 December 2018, it is estimated that a general increase/decrease of 5% in foreign exchange rates of HKD to RMB and USD to RMB, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained profits by approximately RMB4,171,000 and RMB1,022,000, respectively (2017: RMB: Nil and RMB: Nil).

(e) Fair values measurement

The Group does not have any financial instruments measured at fair value at 31 December 2018 and 2017.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2018 and 2017.

(Expressed in RMB'000 unless otherwise indicated)

29 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments outstanding at 31 December 2018 and 2017 not provided for in the financial statements were as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Contracted for	**2,784**	4,348
Authorised but not contracted for	**–**	–
Total	**2,784**	4,348

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within one year	**245**	228
After one year but within five years	**43**	200
After five years	**–**	–
Total	**288**	428

30 MATERIAL RELATED PARTY TRANSACTIONS

In 2018 and 2017, transactions with the following parties are considered as related party transaction:

Name of party	Relationship with the Group
Mr. Cao	Controlling shareholder of the Company
Ms. Quan Xiufeng	Mr. Cao's spouse
Mr. Cao Dudu	Executive director and Mr. Cao's son
Nanyang Fusen Magnesium Powder Limited 南陽福森鎂粉有限公司	Controlled by Mr. Cao
Henan Fusen Organic Forestry and Fruit Limited 河南福森有機農林果業有限公司	Controlled by Mr. Cao
Xichuan Fusen Goods and Materials Limited 淅川縣福森物資有限公司	Controlled by Mr. Cao
Henan Fusen Advertising Limited	

30 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

Name of party	Relationship with the Group
河南福森廣告有限公司	Controlled by Mr. Cao
Xichuan Real Estate Development Limited 淅川縣福森房地產開發有限公司	Controlled by Mr. Cao
Henan Fusen New Energy Technology Limited 河南福森新能源科技有限公司	Controlled by Mr. Cao Dudu
Xichuan Danyangying Hotel Limited 福森藥業淅川縣丹陽迎賓館有限公司	Controlled by Mr. Cao
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	Controlled by Mr. Cao
Henan Danjiang Daguanyuan Tourism Limited 河南丹江大觀苑旅遊有限公司	Controlled by Mr. Cao
Henan Fusen Great Health Industry Limited (河南福森大健康產業有限公司) (formerly known as: Henan Fusen Food & Beverage Co., Ltd. (河南福森食品飲料有限公司))	Controlled by Mr. Cao
Henan Fusen Shiye Group Limited (河南福森實業集團有限公司) (formerly known as: Henan Fusen Shiye Limited (河南福森實業有限公司))	Controlled by Mr. Cao
Henan Fusen Property Service Limited 河南福森物業服務有限公司	Controlled by Mr. Cao
Nanyang Jiayi Lithium Battery Material Sales Limited 南陽嘉益鋰電材料銷售有限公司	Controlled by Mr. Cao Dudu

Note:

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

30 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

In addition to the transactions disclosed elsewhere in the financial statements, the Group has entered into the following material related party transactions during the year:

(a) Transactions with related parties

	Note	2018 RMB'000	2017 RMB'000
Purchase of goods	(i)	**9,007**	24,271
Receiving ancillary services	(ii)	**286**	347
Loans to related parties	(iii)	**–**	319,714
Repayment of loans by related parties	(iii)	**11,425**	458,952
Interest income on fundings to related parties	(iv)	**–**	21,325
Loan from related parties	(v)	**–**	21,118
Repayment of loans to related parties	(v)	**4,961**	92,341

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), herbal drinking from Henan Fusen Great Health Industry Limited (河南福森大健康產業有限公司) and some materials from Xichuan Fusen Goods and Materials Limited (淅川縣福森物資有限公司).

(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), Nanyang Fusen Magnesium Powder Limited (南陽福森鎂粉有限公司), 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 and other services.

(iii) Represent fund provided to and repaid by related parties. Some of certain loans bore interest with rate of 7.20% for the year ended 31 December 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 Note (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 Group Limited (河南福森實業集團有限公司), 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).

30 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in Note 9 and certain of the highest paid employees as disclosed in Note 10, is as follows:

	2018 **RMB'000**	2017 RMB'000
Salaries and wages	**2,097**	1,716
Retirement benefits	**34**	40
Bonuses and other benefits	**308**	–
	2,439	1,756

Total remuneration is disclosed in "staff costs" (see Note 7(a)).

(c) Balances with related parties

	As at 31 December	
	2018 **RMB'000**	2017 RMB'000
Prepayment and other receivables	**13,817**	12,477
Total amounts due from related parties	**13,817**	12,477
Trade and bills payables	**402**	7,128
Accruals and other payables	**1,606**	6,567
Total amounts due to related parties	**2,008**	13,695

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

30 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Financial guarantees	**–**	182,200
Pledges	**45,494**	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.

(e) Applicability of the Listing Rules relating to connected transactions

During the period from the date of Listing on 11 July 2018 to 31 December 2018, the related party transactions in respect of 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) as mentioned in Note 30(a)(i) constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section "Connected Transactions" of the Directors' Report.

31 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2018, the directors consider the immediate parent of the Company to be Full Bliss Holdings Limited and Rayford Global Limited and the ultimate controlling shareholder of the Company to be Mr. Cao Changcheng. Full Bliss Holdings Limited and Rayford Global Limited are incorporated in British Virgin Islands. These entities do not produce financial statements available for public use.

32 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

Statements of financial position

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Non-current assets			
Investments in subsidiaries		**139,084**	16,934
Current assets			
Prepayments and other receivables		**39,777**	7,096
Restricted deposits		**3,260**	–
Cash and cash equivalents		**215,965**	46,249
Current liabilities			
Accruals and other payables		**3,260**	–
NET ASSETS		**394,826**	70,279
CAPITAL AND RESERVES			
Share capital	27(b)	**6,732**	1,274
Reserves	27(c)	**388,094**	69,005
TOTAL EQUITY		**394,826**	70,279

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to date of issue of the financial statements, the IASB has issued a number of amendments and new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in the financial statements. These include the following which may be relevant to the Group.

(Expressed in RMB'000 unless otherwise indicated)

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(Continued)*

	Effective for years beginning on or after
IFRS 16, Leases	1 January 2019
IFRIC 23, Uncertainty over income tax treatments	1 January 2019
Annual Improvements to IFRSs 2015–2017 Cycle	1 January 2019
Amendments to IAS 28, Long-term interest in associates and joint ventures	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of IFRS 16 which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below. Although the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

IFRS 16, Leases

As disclosed in Note 2(g), 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.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(Continued)*

IFRS 16, Leases *(Continued)*

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.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by IFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in IFRS 16 only to contracts that are entered into on or after the date of initial application.

In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of IFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of approximately RMB270,000 as at 1 January 2019.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of IFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

34 COMPARATIVE FIGURES

The Group has initially applied IFRS 15 and IFRS 9 (2014) at 1 January 2018. Under the transition method chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2.

35 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Proposed dividend

After the statement of financial position date, the Board of Directors proposed a final dividend for 2018. For detail, please refer to Note 12.

(b) Equity interests acquisition

On 1 February 2019, the Company, through its subsidiary, entered into a capital injection agreement to acquire 50% of the equity interest in Beijing Sanye Mingming Pharmaceutical Technology Company Limited at a cash consideration of RMB26.0 million. Up to the date of this report, the above-mentioned capital injection has not been completed.

(c) On 29 March 2019, Henan Fusen Pharmaceutical signed a deal conclusion letter with Xichuan County Public Resources Trading Center (淅川縣公共資源交易中心) on the acquisition of certain land use right in the PRC through the tendering, auction and listing of state-owned land use right. The total acquisition price is agreed at RMB 132,620,000.

36 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 29 March 2019.