



福森藥業有限公司

FUSEN PHARMACEUTICAL COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1652

INTERIM REPORT 2021



Contents

Corporate Information	2-3
Chairman's Statement	4-5
Management Discussion and Analysis	6-13
Disclosure of Interests	14-16
Corporate Governance and Other Information	17-19
Review Report	20-21
Consolidated Statement of Profit or Loss and Other Comprehensive Income	22-23
Consolidated Statement of Financial Position	24-25
Consolidated Statement of Changes in Equity	26-27
Condensed Consolidated Cash Flow Statement	28
Notes to the Unaudited Interim Financial Report	29-44

Corporate Information

EXECUTIVE DIRECTORS

Mr. Cao Changcheng (*Chairman*)
Mr. Cao Zhiming
Mr. Hou Taisheng
Ms. Meng Qingfeng
Mr. Chi Yongsheng

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sze Wing Chun
Mr. Lee Kwok Tung, Louis
Dr. To Kit Wa

AUDIT COMMITTEE

Mr. Sze Wing Chun (*Chairman*)
Mr. Lee Kwok Tung, Louis
Dr. To Kit Wa

NOMINATION COMMITTEE

Mr. Cao Changcheng (*Chairman*)
Mr. Lee Kwok Tung, Louis
Dr. To Kit Wa

REMUNERATION COMMITTEE

Mr. Lee Kwok Tung, Louis (*Chairman*)
Mr. Cao Changcheng
Dr. To Kit Wa

COMPANY SECRETARY

Mr. Pang Wai Ching (resigned on 29 January 2021)
Mr. Wong Tik Man (appointed on 29 January 2021)

AUTHORIZED REPRESENTATIVES

Mr. Cao Zhiming
Mr. Pang Wai Ching (resigned on 29 January 2021)
Mr. Wong Tik Man (appointed on 29 January 2021)

AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance
with the Financial Reporting Council Ordinance

COMPLIANCE ADVISER

Dakin Capital Limited

LEGAL ADVISOR

D. S. Cheung & Co.

REGISTERED OFFICE

Winward 3
Regatta Office Park
PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN CHINA

Urban Industrial Zone
Xichuan County, Henan Province
China
(中國河南省淅川縣城區工業園區)

PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART 16 OF THE COMPANIES ORDINANCE

29/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

HONG KONG SHARE REGISTRAR

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

CAYMAN ISLANDS SHARE REGISTRAR

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

Corporate Information

PRINCIPAL BANKERS

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

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

SHARE INFORMATION

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

COMPANY'S WEBSITE

www.fusenyy.com

Chairman's Statement

Dear Shareholders,

For the first half of 2021, the uncertainty of the novel coronavirus pandemic has caused volatility in the market. The Company's total revenue decreased to a certain extent compared with the corresponding period in 2020. However, while procuring the establishment and optimization of the sales team, the Company has also improved its cost control. Net profit achieved year-on-year increase in the first half of 2021, and the operating results were in line with expectations.

Different reform initiatives in the pharmaceutical industry continued to advance deeper, bringing more apparent impact to the industry; the repeated occurrence of the novel coronavirus pandemic in some regions has caused continuous changes in the market with many uncertainties. Measures such as consistency evaluation, the volume-based procurement policy and the restrictions on adjuvant drugs have continued to advance to a deeper level. The profit margin of traditional generic drugs has been greatly reduced, forcing pharmaceutical enterprise to undergo transformation. With the ongoing improvement of their own research and development capabilities, the Company is also tapping into the clinical value of existing products and continuously increasing sales through downward extension of channels. The Company always believes that products with reliable quality, controllable costs and stable efficacy will continuously bring profits to our Company.

The Company kept establishing, reforming and optimizing production facilities, plants and warehouses. Upon the completion of the reform projects, not only will our capacity be significantly enhanced, but our production efficiency and product quality will also be further improved and optimized. The experience over the past few years, especially the sudden outbreak of the novel coronavirus pandemic in 2020, has made the Company's sales team go through both tests and practices. The resilience of the Company's sales team has been greatly improved, and it is calmer in dealing with market changes and challenges. The reform and establishment of the sales team and sales channels have achieved initial results.

The Company continued to increase investment in research and development, especially in the indications and clinical efficacy of drugs. Meanwhile, the Company continued to increase cooperation with universities and external R&D institutions for the continuous enrichment of its own product pipeline. With a series of recent publicity and guidance made by the country to encourage the development of Chinese medicine enterprises, the Company will further increase investment in this area. For the first half of 2021, the Company hold equity interest in Weihai Rensheng Pharmaceutical Group Company Limited* (威海人生藥業集團股份有限公司) and indirectly holds nearly 20 saleable pharmaceutical products, hence it is well-prepared for long-term development in the future. The Company will also seize the changes in market demand and keep expanding its product portfolio. Together with our own advantages in production, sales, branding, channels, etc., the Company will gradually deploy new industry sectors such as medical beauty products and medical equipment.

Chairman's Statement

In the future, there will be more frequent market changes and intensified industry competition. While stabilizing its brilliant products, the Company will also keep diversifying its product portfolio, develop sales channels, continuously enhance its brand building, and gradually improve its research and development capabilities. The management of the Company is confident to lead all employees to actively respond to market challenges and achieve good performance, so as to return to our shareholders and investors.

Cao Changcheng

Chairman of the Board

Management Discussion and Analysis

BUSINESS REVIEW

The revenue and gross profit were approximately RMB214.2 million and RMB118.2 million for the first half of 2021, representing a decrease of approximately 13.5% and 11.0% respectively as compared with the corresponding period of 2020.

The decrease in revenue was mainly attributable to the decrease in sales volume in the product named Shuanghuanglian Oral Solutions. The market demand soared in the first half year of 2020 during the pandemic, and tailed off during the same period in 2021. However, our gross profit margin ratio slightly increased by 1.5% to approximately 55.2% in the first half year of 2021 from approximately 53.7% in the same period of 2020. The selling and distribution expenses were approximately RMB50.9 million for the first half of 2021, which decreased from approximately RMB56.4 million of that of 2020. The general and administrative expenses were approximately RMB31.5 million for the first half of 2021, which decreased from approximately RMB47.8 million of that of 2020. The significant decrease in the general and administrative expenses was mainly due to the financial impact arising from an extension of the granted option to grantees in the first half year of 2020. Excluding the impact of granted options to grantees, there is a slight increase by approximately RMB1.4 million compared to that of 2020. The Group's profit attributable to the equity shareholders was approximately RMB43.9 million, representing an increase of approximately 25.7% as compared with the corresponding period of 2020. It is mainly due to the significant decrease in the general and administrative expenses, which has offset the decrease in gross profit.

PROSPECTS

The outbreak of the novel coronavirus has created great market uncertainties. More structural adjustments and reform of pharmaceutical industry have taken place as a result of the gradual implementation of a series of pharmaceutical reform policies. The market is expected to remain challenging with high amount of competition in the following years. However the Group believe that its pharmaceutical products, with stable and reliable quality, controllable production costs and competitive advantages, still have broad market prospect and profitability. During the first half of 2021, the upgrade and optimizations in production facilities, warehouses and processing facilities are being carried out. In 2021, the Group obtained the GSP qualification through the acquisition of Jiangxi Ruiyuan Pharmaceutical Co., Ltd.* (江西瑞源藥業有限公司). The Group will leverage on the platform of Ruiyuan to expand its sales team, while focusing on filling the gaps in the market, and it will also seek to be the sales agent of products with market potential. The Group acquired 34% equity interests in Weihai Rensheng Pharmaceutical Group Company Limited* (威海人生藥業集團股份有限公司) in 2021. The Group indirectly obtained approval of nearly 20 national exclusive traditional Chinese medicines. This will enrich the Group's product categories. Looking forward, the Group will continue to increase investment in product R&D to diversify the product categories.

Management Discussion and Analysis

FINANCIAL REVIEW

Sales performance

	Unaudited				
	Six months ended 30 June				
	2021		2020		Changes %
Revenue RMB'000	% of total	Revenue RMB'000	% of total		
Shuanghuanglian Oral Solutions (10 ml)	89,523	41.8%	112,636	45.5%	(20.5%)
Shuanghuanglian Oral Solutions (20 ml)	33,579	15.7%	42,199	17.0%	(20.4%)
Subtotal	123,102	57.5%	154,835	62.6%	(20.5%)
Shuanghuanglian Injections	23,082	10.8%	24,551	9.9%	(6.0%)
Compound Ferrous Sulfate Granules	10,749	5.0%	10,044	4.1%	7.0%
Flunarizine Hydrochloride Capsules	10,571	4.9%	9,202	3.7%	14.9%
Others products	46,708	21.8%	48,870	19.7%	(4.4%)
Subtotal	91,110	42.5%	92,667	37.4%	(1.7%)
Total	214,212	100%	247,502	100%	(13.5%)

Our revenue decreased by approximately 13.5% from approximately RMB247.5 million in the first half of 2020 to approximately RMB214.2 million in the first half of 2021, primarily due to the decrease in sales volume.

Among our product categories, revenue from sales of Shuanghuanglian Oral Solutions decreased by approximately 20.5% from approximately RMB154.8 million in the first half of 2020 to approximately RMB123.1 million in the first half of 2021, which was mainly attributable to soaring demand in 2020 during the pandemic. Revenue from sales of Shuanghuanglian Injections decreased by approximately 6.0% from approximately RMB24.6 million in the first half of 2020 to approximately RMB23.1 million in the first half of 2021, which was mainly attributable to the continuing impact of medicine regulations on injections. Our revenue from other products slightly decreased by approximately 4.4% from approximately RMB48.9 million in the first half of 2020 to approximately RMB46.7 million in the first half of 2021, which was mainly attributable to the fluctuating demand.

Management Discussion and Analysis

Gross profit and margin

Our gross profit decreased by approximately 11.0% from approximately RMB132.8 million for the first half year of 2020 to approximately RMB118.2 million for the first half year of 2021. The decrease in gross profit is in line with the approximately 13.5% decrease in total revenue for the first half year of 2021. Meanwhile, gross profit margin slightly increased by 1.5% to approximately 55.2% for the first half year of 2021 (approximately 53.7% for the first half of 2020).

Other net income

Our other net income primarily consists of government grants, net realised and unrealised gains on derivative financial assets, net material and scrap sales income, rental income and others. The increase is mainly due to the increase in government grants.

Selling and distribution expenses

Our selling and distribution expenses primarily consist of distribution expenses, commission, advertisement, wages and salaries, promotion expenses and others. In the first half of 2020 and 2021, our selling and distribution expenses amounted to approximately RMB56.4 million and RMB50.9 million respectively, representing approximately 22.8% and 23.8% of our revenue for the respective periods. The decrease in selling and distribution expenses is mainly due to the decrease in distribution expenses and wages and salaries, which amounted to approximately RMB2.1 million and RMB2.4 million respectively. The decrease is in line with the decrease in revenue.

General and administrative expenses

General and administrative expenses primarily consist of wages and salaries, depreciation, professional fee, research and development costs, and others.

The decrease of general and administrative expenses of approximately RMB16.3 million from approximately RMB47.8 million for the first half year of 2020 to approximately RMB31.5 million for the first half year of 2021 was mainly attributable to the financial impact of the extension of granted options to grantees. Excluding the impact of granted option, the amount of general and administrative expenses is slightly increased by approximately RMB1.4 million in the first half year of 2021 compared to that of the first half year of 2020. Such slight increase was mainly attributable to the increase in professional fee and depreciation.

Net finance costs

Our net finance costs represent finance income, which includes interest income derived from bank deposits, less finance costs, interest on bank loans and foreign exchange loss.

The net finance costs increased from approximately RMB4.0 million in the first half year of 2020 to approximately RMB5.9 million in the first half year of 2021, mainly attributable to the increase in net foreign exchange loss.

Management Discussion and Analysis

Income tax expenses

Income tax primarily represents income tax payable by the Group under relevant PRC income tax rules and regulations. Henan Fusen, our subsidiary, was certified as a High New Technology Enterprise in Henan province and has been entitled to a preferential income tax rate of 15%. In the first half year of 2020 and 2021, our effective tax rate was 20.2% and 13.8%, respectively. Such decrease was mainly due to the non tax deductible expense relating to the extension of granted share options in the first half year of 2020.

CAPITAL EXPENDITURES

The Group's capital expenditures primarily consist of payments and deposits for purchase of property, plant and equipment, right-of-use assets and intangible assets. In the first half year of 2021, the total capital expenditure was approximately RMB68.0 million (the first half year of 2020: approximately RMB46.5 million). The capital expenditures during the period were mainly incurred for the construction of new production facilities.

BANK AND OTHER LOANS

As at 30 June 2021, the Group's short-term borrowings and long-term borrowings amounted to approximately RMB154.1 million (31 December 2020: approximately RMB198.5 million).

	As at 30 June 2021 RMB'000	As at 31 December 2020 RMB'000
Short-term borrowings	134,105	178,500
Long-term borrowings	20,000	20,000
Total	154,105	198,500

The decrease in bank and other loans primarily represented decrease in short-term borrowings made during the first half year of 2021.

TREASURY POLICY

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

CAPITAL STRUCTURE

The Group's capital structure consists of equity interest attributable to shareholders and liabilities. As at 30 June 2021, the Group's equity interest attributable to shareholders amounted to approximately RMB697.3 million (31 December 2020: approximately RMB659.4 million) in aggregate and total liabilities amounted to approximately RMB588.9 million (31 December 2020: approximately RMB583.1 million). The Group is committed to maintaining an appropriate combination of equity and debt, in order to maintain an effective capital structure and provide maximum returns for shareholders.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group had net current liabilities of approximately RMB90.1 million (31 December 2020: net current assets of approximately RMB112.8 million), which included cash and cash equivalents of approximately RMB53.8 million (31 December 2020: approximately RMB297.0 million) and the short-term bank and other loans amounting to approximately RMB134.1 million (31 December 2020: approximately RMB178.5 million). As at 30 June 2021, the Group had net current liabilities mainly due to i) the Group indirectly obtained approval of nearly 20 national exclusive trading Chinese medicines by acquired 34% equity interests in Weihai Rensheng Pharmaceutical Group Company Limited* (威海人生藥業集團股份有限公司) in 2021 ii) During the six months ended 30 June 2021, the Group had the construction of new production facilities.

Considering the current economic conditions and taking into account of the Group's expected capital expenditures in the foreseeable future, management has comprehensively considered the following: (i) The Group's continuous net cash inflow from operating activities; and (ii) The Group's ability to raise funds, as needed, through loan financing and equity financing, from the short and long-term perspective, and maintain reasonable financing costs through appropriate financing portfolio; and is of the opinion that the Group has sufficient funds to meet its working capital commitments, expected capital expenditure and debt obligations.

GEARING RATIO

As at 30 June 2021, the gearing ratio of the Group, which is calculated by dividing total bank and other loans by total equity, decreased to 22.1% from 30.2% as at 31 December 2020. The decrease was primarily due to the decrease in the bank loans borrowed by the Group.

EXCHANGE RISK

The Group conducts business primarily in China with most of its transactions denominated and settled in Renminbi. The Group monitors foreign exchange exposure regularly and considers if there is a need to hedge against significant foreign currency exposure when necessary.

MATERIAL ACQUISITION AND DISPOSAL

Investment Framework Agreement

On 31 December 2020, Weihai Rensheng Pharmaceutical Group Company Limited* (威海人生藥業集團股份有限公司) ("**Weihai Rensheng**"), Weihai Haoyang Health Technology Company Limited* (威海浩洋健康科技有限公司) ("**Weihai Haoyang**", having 43.35% equity interest in Weihai Rensheng), Mr. Miao Qizhuang* (苗其壯先生) ("**Mr. Miao**", having 13.99% equity interests in Weihai Rensheng and 98.9% equity interests in Weihai Haoyang) and Henan Fusen entered into an investment framework agreement ("**Agreement**") for the acquisition of 34% of the equity interest of Weihai Rensheng by Henan Fusen from Weihai Haoyang.

Pursuant to the Agreement, Henan Fusen has agreed to (1) enter into a loan agreement, pursuant to which Henan Fusen will lend to Weihai Haoyang the loan with a principal amount of RMB90,000,000; and (2) enter into the sale and purchase agreement, pursuant to which Henan Fusen will conditionally acquire and Weihai Haoyang will conditionally sell 34% of the equity interest of Weihai Rensheng at a consideration of RMB153,000,000.

Management Discussion and Analysis

Weihai Rensheng is principally engaged in the production and sale of proprietary Chinese medicine in the PRC. The Group considers the Agreement an opportunity for the Group to leverage on the experience and expertise of Weihai Rensheng in the sales and production of proprietary Chinese medicine in the PRC to expand the existing product offering of the Group.

Upon completion of the sale and purchase agreement, Weihai Rensheng will be owned as to approximately 35.9%, 34.0%, 15.8% and 14.3% by Weihai Haoyang, Henan Fusen, Mr. Miao and the senior management of Weihai Rensheng, respectively.

In May 2021, the acquisition of equity interests of Weihai Haoyang was completed.

Save as disclosed in this report, the Group did not perform any material acquisition or disposal of subsidiaries and associates.

HUMAN RESOURCES

As at 30 June 2021, the Group had a total of 1,230 employees (31 December 2020: 1,248 employees). The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's and individual's performance.

For the first half year of 2021, the total staff cost (including Director's emoluments, contributions to defined contribution retirement schemes, bonus and other benefits) amounted to approximately RMB43.8 million (six months ended 30 June 2020: RMB43.1 million).

COMMITMENT

Capital commitments of the Group outstanding as at 30 June 2021 and 31 December 2020 are as follows:

	30 June 2021 RMB'000	31 December 2020 RMB'000
Contracted for	67,328	103,617

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2021.

PLEDGE OF ASSETS

As at 30 June 2021, 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 approximately RMB88.3 million as of 30 June 2021 (31 December 2020: approximately RMB158.8 million).

Management Discussion and Analysis

COMPARISON OF BUSINESS STRATEGIES WITH ACTUAL BUSINESS PROGRESS

The shares of the Company (the “**Share(s)**”) were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 11 July 2018. The Group is 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 30 June 2021 (the “**Reporting Period**”).

Business strategies as stated in the Prospectus	Actual business progress up to 30 June 2021
Establishment of production facilities, warehouse, processing facilities	The Group has further upgraded and optimised certain existing production facilities and equipment.
Advertising and marketing of the Group’s products	The Group has strengthened brand promotion through media channel such as TV and road side billboards to highlight its market reputation gained over the years.
Expansion of distribution and marketing network	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	The Group continued to cooperate with scientific research institutions in the field of proprietary Chinese medicine products, focused on the mechanism of efficacy and effect. The Group also kept investing in generic drugs research and development, such as ongoing consistency.
Potential merger and acquisition	The Group acquired 34% equity interests in Weihai Rensheng Pharmaceutical Group Company Limited* (威海人生藥業集團股份有限公司) in May 2021.
Acquisition of production permits of new types of products	The pharmaceutical industry of China is still relatively fragmented. Given the gradual implementation of marketing authorisation 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 legal and other professional service charge.

Management Discussion and Analysis

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 30 June 2021 HK\$ million	Remaining balance as at 30 June 2021 HK\$ million	Expected timeframe for the remaining utilising net proceeds
Establishment of production facilities, warehouse, processing facilities	30%	119.0	119.0	–	–
Advertising and marketing of the Group’s products	10%	39.7	31.1	8.6	By 31 December 2021
Expansion of distribution and marketing network	10%	39.7	39.7	–	–
Research and development activities	10%	39.7	36.7	3.0	By 31 December 2021
Potential merger and acquisition	15%	59.6	59.6	–	–
Acquisition of production permits of new types of products	15%	59.6	59.6	–	–
Working capital and general corporate purposes	10%	39.7	39.7	–	–
	100%	397.0	385.4	11.6	

Disclosure of Interests

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

Disclosure of interests

As at 30 June 2021, so far as the Directors are aware, the interests or short positions of the Directors or chief executives in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571) (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), are as follows.

Long position in our Shares

Name of Director	Capacity/Nature	Number of Shares held/ interested	Percentage of interest
Mr. Cao Changcheng ^(Notes 1, 2 and 3)	Interest of a controlled corporation	487,200,000	63.3%
Mr. Cao Zhiming (formerly known as Mr. Cao Dudu) ^(Note 2)	Interest of a controlled corporation	126,840,000	16.47%
Mr. Hou Taisheng ^(Note 4)	Beneficiary of a trust	13,399,165	1.74%
Ms. Meng Qingfen ^(Note 4)	Beneficiary of a trust	11,809,433	1.53%
Mr. Chi Yongsheng ^(Note 4)	Beneficiary of a trust	12,944,956	1.68%

Notes:

1. Full Bliss Holdings Limited (the "Full Bliss") is wholly-owned by Mr. Cao Changcheng. As Mr. Cao Changcheng beneficially owns 100% of the issued shares of Full Bliss, Mr. Cao Changcheng is deemed to be interested in 180,180,000 Shares held by Full Bliss pursuant to the SFO.
2. Mr. Cao Zhiming (formerly known as Mr. Cao Dudu) is the beneficial owner of the entire issued share capital of One Victory Investments Limited (the "One Victory") and is therefore deemed to be interested in the 126,840,000 Shares held by One Victory pursuant to the SFO. Furthermore, pursuant to the Second Deed of Confirmation dated 18 August 2017 entered into between Mr. Cao Changcheng, Mr. Cao Zhiming and One Victory, Mr. Cao Changcheng is entrusted to exercise all voting rights attaching to the Shares owned by One Victory and direct One Victory to vote accordingly.
3. Mr. Cao Changcheng is the protector of the Fusen Trust who has the power to remove the trustee and appoint new trustee for the Fusen Trust. Mr. Cao Changcheng is also the investment manager of the Fusen Trust, who is entitled to carry out the investment and management functions of the Fusen Trust, including the exercise of all voting rights attaching to the Shares owned by Rayford Global Limited (the "Rayford") and direct the trustee of the Fusen Trust to vote accordingly. Mr. Cao Changcheng, through Full Bliss, Rayford and One Victory, is therefore interested in an aggregate of 487,200,000 Shares, representing 60.90% of our issued share capital upon completion of the Global Offering and the capitalisation issue under the SFO.
4. Each of Mr. Hou Taisheng, Mr. Chi Yongsheng, and Ms. Meng Qingfen, who is our executive Director, is a beneficiary under the Fusen Trust.

Disclosure of Interests

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON'S INTEREST IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2021, as far as the Directors aware, the following persons (not being a Director or chief executive of our Company) have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Our Company

Name	Capacity/Nature	Number of Shares held/interested	Percentage of interest
Full Bliss	Beneficial owner	180,180,000	23.40%
Rayford	Beneficial owner	180,180,000	23.40%
Vistra Trust (Hong Kong) Limited ^(Note 1)	Interest of a trustee	180,180,000	23.40%
Ms. Quan Xiufeng ^(Note 2)	Interest of spouse	487,200,000	63.3%
One Victory	Beneficial owner	126,840,000	16.47%
Ms. Zhou Peilin (formerly known as Ms. Zhou Rui) ^(Note 3)	Interest of spouse	126,840,000	16.47%
First Joint Elegant Limited	Beneficial owner	39,960,000	5.19%
Mr. Lam Yiu Por ^(Note 4)	Interest of a controlled corporation	39,960,000	5.19%
Ms. Fung Wai Sze ^(Note 5)	Interest of spouse	39,960,000	5.19%

Notes:

- Vistra Trust (Hong Kong) 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.
- 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.
- Ms. Zhou Peilin is Mr. Cao Zhiming (formerly known as Mr. Cao Dudu)'s spouse and is deemed to be interested in the 126,840,000 Shares in which Mr. Cao Zhiming is interested for the purpose of the SFO.
- First Joint Elegant Limited ("**First Joint Elegant**") is wholly owned by Mr. Lam Yiu Por. As Mr. Lam Yiu Por beneficially owns 100% of the issued shares of First Joint Elegant, Mr. Lam Yiu Por is deemed to be interested in 39,960,000 shares held by First Joint Elegant pursuant to the SFO.
- Ms. Fung Wai Sze is Mr. Lam Yiu Por's spouse and is deemed to be interested in the 39,960,000 shares in which Mr. Lam Yiu Por is interested for the purpose of the SFO.

Disclosure of Interests

SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the “**Share Option Scheme**”) on 14 June 2018 (the “**Adoption Date**”).

The following table discloses movements in the Company’s share options outstanding under the Share Option Scheme during the period ended 30 June 2021:

Name/category of participants	At 31 December 2020	Date of grant of share options	Exercised during the period	Granted during the period	Lapsed during the period	Canceled during the period	At 30 June 2021	Vesting period of share options	Exercise period (Note) (both days inclusive)	Exercise price of share options HK\$ per share	Closing price of shares immediately before date of grant HK\$ per share
Two employees of the Group	8,000,000	19 July 2019	-	-	-	-	16,000,000	All of the share options granted have been vested on 19 October 2019	19 October 2019–13 June 2028	3.098	3.04

As at 30 June 2021, no share options were granted under the Share Option Scheme.

As at the date of approval of this interim report, there were 16,000,000 outstanding share options granted under the Share Option Scheme, representing approximately 2.08% of the issued share capital of the Company.

In order to encourage long-term commitment to the Company and to align the interests of the eligible grantees with the Company’s development, the Board proposed to extend the exercise period of the outstanding options granted under the Share Option Scheme, such that those options may be exercised over a period of not more than 10 years from the date of grant. The annual general meeting held on 30 June 2020 approved the proposed amendment of terms of share options granted, extending the exercise period of the outstanding options for the period from the previous expiry date, being 19 July 2020, to 13 June 2028. The modification took effect on 30 June 2020.

As it is expected that the proposed extension of exercise period would induce and incentivise the holders of the outstanding options to contribute to the growth, development and success of the Group, the Board considers that the proposed extension of exercise period of the outstanding options is in line with the objective of the Share Option Scheme, which also closely aligns the interests of such holders with that of the Shareholders to promote the long-term development and financial performance of the Company.

Please refer to Note 18 to the financial statements for further information of the Share Option Scheme and the value of share options granted.

Corporate Governance and Other Information

CORPORATE GOVERNANCE

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability.

The Company has adopted the code provisions stated in the Corporate Governance Code (the “**Code**”) as set out in Appendix 14 to the Listing Rules. Throughout the period from 1 January 2021 to 30 June 2021, save for the F.1.1 of the Code, the Company has complied with all applicable code provisions set out in the Code.

Code provision F.1.1 of the Code requires that the company secretary should be an employee of the Company and have day-to-day knowledge of the Company’s affairs. Mr. Wong Tik Man (“**Mr. Wong**”) was appointed as the company secretary of the Company with effect from 29 January 2021. He is an external service provider and he is not an employee of the Company. The Company has thus assigned Mr. Li Zhen, the chief financial officer of the Company, as the primary contact person with Mr. Wong. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Mr. Wong through the contact person assigned. Having in place a mechanism that Mr. Wong will get hold of the Group’s development promptly without material delay and with his expertise and experience, the Board is confident that having Mr. Wong as the company secretary is beneficial to the Group’s compliance with the relevant board procedures, applicable laws, rules and regulations.

AUDIT COMMITTEE

The Company established an audit committee (the “**Audit Committee**”) on 14 June 2018 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Code. During the six months ended 30 June 2021, the Audit Committee consisted of three independent non-executive Directors, Mr. Sze Wing Chun (being the chairman of the Audit Committee who has a professional qualification in accountancy), Mr. Lee Kwok Tung, Louis and Dr. To Kit Wa.

The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process, to develop and review the Group’s policies and to perform other duties and responsibilities as assigned by our Board. The Audit Committee discussed the accounting principles and policies adopted by the Group together with the management.

REVIEW OF THE INTERIM REPORT

The Audit Committee has discussed with the management of the Company the internal control and financial reporting matters related to the preparation of the unaudited condensed interim financial report for the six months ended 30 June 2021. It has also reviewed the unaudited condensed interim financial report for the six months ended 30 June 2021 with the management and the auditor of the Company and recommended them to the Board for approval.

The interim financial report for the six months ended 30 June 2021 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity”, issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included on pages 20 to 21.

Corporate Governance and Other Information

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiries, all Directors confirmed that they have complied with the required standard of dealing as set out in the Model Code for the six months ended 30 June 2021.

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

During the six months ended 30 June 2021, the Company repurchased a total of 500,000 Shares on the Stock Exchange at an aggregate consideration of (excluding expenses) HK\$2.375 million. Such repurchased shares were cancelled during the six months ended 30 June 2021 on 7 June 2021. The issued share capital of the Company was reduced by the par value thereof. Details of the repurchases of shares were as follows:

Month of repurchase	Number of Shares repurchased	Price per Share		Aggregate consideration (excluding expenses) HK\$'000
		Highest HK\$	Lowest HK\$	
January 2021	500,000	4.75	4.75	2,375

The repurchase of shares was made by the Directors, pursuant to the general mandate granted by the Shareholders at the annual general meeting held on 30 June 2020 with a view to benefiting the Shareholders as a whole by enhancing the net asset value per share and earnings per share.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2021.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Interim Dividend

In view of the performance of the Group and our dividend policy, on 23 August 2021, the directors of the Company declared an interim dividends of RMB0.57 cent per ordinary share for the six months ended 30 June 2021, which has not been recognised as a liability as at 30 June 2021.

Pursuant to our dividend policy, the Board declared an interim dividend of RMB0.57 cents (equivalent to HK\$0.68 cents, by adopting the prevailing exchange rate on 23 August 2021 set by the People's Bank of China) per ordinary share (interim dividend for the first half of 2020: RMB0.45 cents (equivalent to HK\$0.51 cents) per ordinary share).

The interim dividend will be payable on 19 November 2021 to the Shareholders of the Company whose names appear on the register of members of the Company on 24 September 2021.

Corporate Governance and Other Information

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 21 September 2021, to Friday, 24 September 2021, both dates inclusive, during which period no transfer of Shares will be registered. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Monday, 20 September 2021.

PUBLICATION OF INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2021 containing all the information required by the Listing Rules is to be dispatched to the Shareholders of the Company and made available for review on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.fusenyy.com by September 2021.

Review Report



Review report to the board of directors of Fusen Pharmaceutical Company Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 22 to 44 which comprises the consolidated statement of financial position of Fusen Pharmaceutical Company Limited (the “**Company**”) and its subsidiaries (the “**Group**”) as of 30 June 2021 and the related consolidated statement of profit or loss and other comprehensive income, and the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial report performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Review Report *(Continued)*

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2021 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

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

23 August 2021

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2021 — unaudited
(Expressed in Renminbi (RMB)'000 unless otherwise indicated)

	Note	Six months ended 30 June	
		2021 RMB'000	2020 RMB'000
Revenue	4	214,212	247,502
Cost of sales		(95,980)	(114,671)
Gross profit		118,232	132,831
Other net income	5	11,059	5,028
Selling and distribution expenses		(50,914)	(56,421)
General and administrative expenses		(31,529)	(47,758)
Profit from operations		46,848	33,680
Finance income		1,212	799
Finance costs		(7,074)	(4,833)
Net finance costs	6	(5,862)	(4,034)
Share of profit of a joint venture		11,721	12,231
Share of loss of an associate		(1,910)	—
Profit before taxation	7	50,797	41,877
Income tax expenses	8	(6,988)	(8,447)
Profit for the period		43,809	33,430
Attributable to:			
Equity shareholders of the Company		43,919	34,934
Non-controlling interests		(110)	(1,504)

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

For the six months ended 30 June 2021 — unaudited
(Expressed in RMB'000 unless otherwise indicated)

	Note	Six months ended 30 June	
		2021 RMB'000	2020 RMB'000
Other comprehensive income for the period (after tax)			
<i>Item that may be reclassified subsequently to profit or loss</i>			
— Exchange differences on translation of financial statements of the Company and overseas subsidiaries		(555)	841
Total comprehensive income for the period		43,254	34,271
Attributable to:			
Equity shareholders of the Company		43,364	35,775
Non-controlling interests		(110)	(1,504)
Total comprehensive income for the period		43,254	34,271
Earnings per share	9		
Basic (RMB cents)		6	4
Diluted (RMB cents)		6	4

The accompanying notes form part of this interim financial report.

Consolidated Statement of Financial Position

As at 30 June 2021 — unaudited
(Expressed in RMB'000 unless otherwise indicated)

	Note	30 June 2021 RMB'000	31 December 2020 RMB'000
Non-current assets			
Investment property	10	18,159	18,713
Other property, plant and equipment	10	320,280	238,002
Right-of-use assets	11	247,007	247,926
Intangible assets		783	883
Interest in a joint venture		79,369	67,648
Interest in an associate	12	151,090	–
Deferred tax assets		5,324	5,709
Other assets		2,099	2,099
		824,111	580,980
Current assets			
Trading securities		5,129	15,489
Inventories	13	121,327	105,415
Trade receivables	14	159,293	183,930
Prepayments and other receivables		121,186	58,495
Cash and cash equivalents	15	53,802	297,038
		460,737	660,367
Current liabilities			
Trade and bills payables	16	117,005	108,585
Lease liabilities		841	–
Contract liabilities		5,500	13,581
Accruals and other payables		293,196	242,514
Bank and other loans	17	134,105	178,500
Current taxation		137	1,665
Other financial liabilities		75	2,761
		550,859	547,606
Net current (liabilities)/assets		(90,122)	112,761
Total assets less current liabilities		733,989	693,741

Consolidated Statement of Financial Position *(Continued)*

As at 30 June 2021 — unaudited
(Expressed in RMB'000 unless otherwise indicated)

	Note	30 June 2021 RMB'000	31 December 2020 RMB'000
Non-current liabilities			
Deferred income		7,846	8,359
Lease liabilities		1,291	–
Bank and other loans	17	20,000	20,000
Deferred tax liabilities		8,895	7,133
		38,032	35,492
NET ASSETS			
		695,957	658,249
CAPITAL AND RESERVES			
Share capital	19	6,479	6,513
Reserves		690,781	652,929
Total equity attributable to equity shareholders of the Company			
Non-controlling interests			
		(1,303)	(1,193)
TOTAL EQUITY			
		695,957	658,249

The accompanying notes form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021 — unaudited
(Expressed in RMB'000 unless otherwise indicated)

Note	Attributable to equity shareholders of the Company										Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares reserve	Capital redemption reserve	Statutory surplus reserves	Share option reserve	Other reserves	Exchange reserve	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2021	6,513	274,784	(30)	219	54,071	26,655	(11,131)	15,588	292,773	659,442	(1,193)	658,249
Profit for the period	-	-	-	-	-	-	-	-	43,919	43,919	(110)	43,809
Other comprehensive income	-	-	-	-	-	-	-	(555)	-	(555)	-	(555)
Total comprehensive income for the period	-	-	-	-	-	-	-	(555)	43,919	43,364	(110)	43,254
Dividends approved in respect of the previous year	21(b)	(3,560)	-	-	-	-	-	-	-	(3,560)	-	(3,560)
Purchase of own shares	20	(1,982)	(4)	-	-	-	-	-	-	(1,986)	-	(1,986)
Cancellation of treasury shares	20	-	34	-	-	-	-	-	-	-	-	-
— Par value		(34)	-	-	-	-	-	-	-	-	-	-
— Transfer between reserves		-	(34)	34	-	-	-	-	-	-	-	-
Balance at 30 June 2021	6,479	269,208	-	253	54,071	26,655	(11,131)	15,033	336,692	697,260	(1,303)	695,957

Consolidated Statement of Changes in Equity *(Continued)*

For the six months ended 30 June 2021 — unaudited
(Expressed in RMB'000 unless otherwise indicated)

	Note	Attributable to equity shareholders of the Company										Non-controlling interests	Total equity
		Share capital	Share premium	Treasury shares reserve	Capital redemption reserve	Statutory surplus reserves	Share option reserve	Other reserves	Exchange reserve	Retained earnings	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2020		6,732	375,943	-	-	54,071	9,023	(12,626)	17,660	222,642	673,445	8,095	681,540
Profit for the period		-	-	-	-	-	-	-	-	34,934	34,934	(1,504)	33,430
Other comprehensive income		-	-	-	-	-	-	-	841	-	841	-	841
Total comprehensive income for the period		-	-	-	-	-	-	-	841	34,934	35,775	(1,504)	34,271
Acquisition of non-controlling interests in a subsidiary		-	-	-	-	-	-	1,495	-	-	1,495	(1,825)	(330)
Equity settled share-based transactions	18	-	-	-	-	-	17,632	-	-	-	17,632	-	17,632
Dividends approved in respect of the previous year	21(b)	-	(2,908)	-	-	-	-	-	-	-	(2,908)	-	(2,908)
Purchase of own shares	20	-	(56,166)	(153)	-	-	-	-	-	-	(56,319)	-	(56,319)
Cancellation of treasury shares	20												
— Par value		(118)	-	118	-	-	-	-	-	-	-	-	-
— Transfer between reserves		-	(118)	-	118	-	-	-	-	-	-	-	-
Balance at 30 June 2020		6,614	316,751	(35)	118	54,071	26,655	(11,131)	18,501	257,576	669,120	4,766	673,886

The accompanying notes form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2021 — unaudited
(Expressed in RMB'000 unless otherwise indicated)

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	45,920	113,821
The People's Republic of China ("PRC") income tax paid	(10,119)	(8,050)
Net cash generated from operating activities	35,801	105,771
Investing activities		
Loan to a joint venture	(45,000)	–
Payment to acquire interest of an associate	(153,000)	–
Payment for the purchase of property, plant and equipment	(67,989)	(46,465)
Purchases of trading securities	–	(19,254)
Proceeds from sale of trading securities	10,263	22,123
Other cash flow generated from investing activities	1,352	50,342
Net cash (used in)/generated from investing activities	(254,374)	6,746
Financing activities		
Borrowing costs paid	(4,947)	(4,920)
Loan from a related party	30,000	–
Capital element of lease rentals paid	(250)	–
Interest element of lease rentals paid	(50)	–
Proceeds from bank and other loans	126,876	209,290
Repayment of bank and other loans	(173,569)	(190,000)
Payment for purchase of own shares	(1,985)	(56,319)
Net cash used in financing activities	(23,925)	(41,949)
Net (decrease)/increase in cash and cash equivalents	(242,498)	70,568
Cash and cash equivalents at 1 January	297,038	331,044
Effect of foreign exchange rate changes	(738)	1,017
Cash and cash equivalents at 30 June	53,802	402,629

The accompanying notes form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in RMB'000 unless otherwise indicated)

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

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

2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), including compliance with International Accounting Standard (“**IAS**”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“**IASB**”). It was authorised for issue on 23 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial report performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). KPMG’s independent review report to the Board of Directors of the Company is included on page 20.

The financial report relating to the financial year ended 31 December 2020 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. The Company’s annual consolidated financial statements for the year ended 31 December 2020 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 31 March 2021.

Notes to the Unaudited Interim Financial Report *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

2 BASIS OF PREPARATION *(Continued)*

Going concern assumption

As at 30 June 2021, current liabilities of the Group exceeded current assets by RMB90,122,000 (31 December 2020: Nil). Considering the current economic conditions and taking into account of the Group's expected capital expenditures in the foreseeable future, management has comprehensively considered the following:

- The Group's continuous net cash inflow from operating activities;
- The Group's ability to raise funds, as needed, through loan financing and equity financing, from the short and long-term perspective, and maintain reasonable financing costs through appropriate financing portfolio.

Based on the above considerations and the Group's cash flow forecast for the twelve months ending 30 June 2022, the board of directors is of the opinion that the Group has sufficient funds to meet its working capital commitments, expected capital expenditure and debt obligations. As a result, the unaudited interim financial report of the Group for the six months ended 30 June 2021 has been prepared on a going concern basis. The interim financial report does not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to IFRSs issued by the IASB to this interim financial report for the current accounting period:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform — phase 2*

None of these amendments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Notes to the Unaudited Interim Financial Report *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

The amount of each significant category of revenue recognised during the period is as follows:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Shuanghuanglian Oral Solutions	123,102	154,835
Shuanghuanglian Injections	23,082	24,551
Others	68,028	68,116
	214,212	247,502

Revenue is recognised at point in time.

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's revenue during the six months ended 30 June 2021 and 2020.

(b) Segment information

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

5 OTHER NET INCOME

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Government grants	9,553	934
Net realised and unrealised gains of listed trading securities on FVPL	20	2,869
Net realised and unrealised gains on derivative financial instruments	2,686	–
Net loss on disposal of assets	(2,956)	(34)
Others	1,756	1,259
	11,059	5,028

Notes to the Unaudited Interim Financial Report *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

6 NET FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Finance income	1,212	799
Less: Finance costs		
— Interest on bank loans	4,903	4,920
— Net foreign exchange loss/(gain)	2,171	(87)
Net finance costs	(5,862)	(4,034)

7 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Cost of inventories	96,347	115,402
Research and development costs	6,070	7,321
Depreciation of investment property and other property, plant and equipment	7,633	8,135
Depreciation of right-of-use assets	3,288	3,141
Amortisation of intangible assets	100	100
Recognition/(reversal) of credit losses on trade and other receivables	1,406	(147)

Notes to the Unaudited Interim Financial Report *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

8 INCOME TAX EXPENSES

Amounts recognised in profit or loss:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current tax — the PRC Enterprise Income Tax		
Provision for the period	4,840	6,541
Deferred tax		
Origination and reversal of temporary differences	2,148	1,906
	6,988	8,447

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

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2020: 16.5%) to the six months ended 30 June 2021, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime. For this subsidiary, the first HKD2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5% during the six months ended 30 June 2020. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

In accordance with the Enterprise Income Tax Law of the PRC ("**the Income Tax Law**"), enterprise income tax rate for the Group's PRC subsidiaries during the six months ended 30 June 2021 is 25% (2020: 25%).

According to the Income Tax Law, the Company's subsidiary, Henan Fusen Pharmaceutical Company Limited ("**Henan Fusen**") was certified as a New and High Technology Enterprise in Henan since 2012, and is entitled to a preferential income tax rate of 15% (2020: 15%), which has been applied for each of the six months ended 30 June 2021 and 2020. The current certification of New and High Technology Enterprise held by Henan Fusen will expire 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 Company, are subject to PRC dividend withholding tax at 10% on dividends receivables from PRC subsidiaries and investees.

Notes to the Unaudited Interim Financial Report *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

9 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB43,919,000 (six months ended 30 June 2020: RMB34,934,000) and the weighted average of 769,951,000 ordinary shares (2020: 797,213,000) in issue during the reporting period, calculated as follows:

	Six months ended 30 June	
	2021 '000	2020 '000
Issued ordinary shares at 1 January	774,012	800,000
Effect of purchase of own shares (Note 20)	(4,061)	(2,787)
Weighted average number of ordinary shares at 30 June	769,951	797,213

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB43,919,000 (six months ended 30 June 2020: RMB34,934,000) and the weighted average number of 773,864,000 (2020: 800,863,000) ordinary shares after adjusting the effects of dilutive potential ordinary shares during the reporting period, calculated as follows:

	Six months ended 30 June	
	2021 '000	2020 '000
Weighted average number of ordinary shares at 30 June	769,951	797,213
Effect of deemed issue of shares under the Company's Share Option Scheme (Note 18)	3,913	3,650
Weighted average number of ordinary shares (diluted) at 30 June	773,864	800,863

10 INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the addition for the Group on construction of production plant and acquired items of equipment amounted to RMB92,436,000 (six months ended 30 June 2020: RMB53,225,000). Items of other property, plant and equipment with a net book value of RMB3,079,000 were disposed of during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB106,000), resulting in a loss on disposal of RMB2,956,000 (six months ended 30 June 2020: RMB34,000).

None of the Group's bank borrowings were secured by the Group's property, plant and equipment as at 30 June 2021 (31 December 2020: RMB44,190,000).

Notes to the Unaudited Interim Financial Report *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

11 RIGHT-OF-USE ASSETS

During the six months ended 30 June 2021, the Group entered into lease agreements for leasehold properties and therefore recognised the additions to right-of-use assets of RMB2,368,000 (six months ended 30 June 2020: Nil).

As at 30 June 2021, certain of the Group's bank borrowings were secured by the Group's land use rights, which had an aggregate carrying amount of RMB88,324,000 as at 30 June 2021 (31 December 2020: RMB114,630,000).

12 INTEREST IN AN ASSOCIATE

On 31 December 2020, Weihai Rensheng Pharmaceutical Group Company Limited ("**Weihai Rensheng**"), Weihai Haoyang Health Technology Company Limited ("**Weihai Haoyang**"), Mr. Miao Qizhuang ("**Mr. Miao**") and Henan Fusen entered into an investment framework agreement ("**Agreement**") for the acquisition of 34% of the equity interest of Weihai Rensheng by Henan Fusen from Weihai Haoyang.

On 31 May 2021, Henan Fusen acquired 25,847,533 shares, representing 34% equity interests in Weihai Rensheng, at cash consideration of RMB153,000,000. Weihai Rensheng is principally engaged in the production and sale of proprietary Chinese medicine in the PRC. The Group accounted for such investment using equity method.

Pursuant to the Agreement, Henan Fusen has a put option (the "**Put Option**") in connection with the investment in Weihai Rensheng, in certain events, Henan Fusen has the right to require Weihai Haoyang, Mr. Miao and Weihai Rensheng to purchase all of Henan Fusen's investment in Weihai Rensheng at a price equal to the original subscription price plus interest calculated at an interest rate of 8% per annum by cash. In addition, Henan Fusen has a pre-emptive right (the "**Pre-emptive Right**") pursuant the Agreement which allows Henan Fusen to purchase no less than 80% of equity interests held by other shareholders in Weihai Rensheng in certain events base on the higher price of share proportion of the total value for RMB450,000,000 and the fair value. The directors of the Company consider the probability of Henan Fusen to execute the Put Option and the Pre-emptive Right is extremely low, and the Put Option and the Pre-emptive Right are both recognised as derivative financial assets having no value.

The Group is still in process of assessing the final fair value of Weihai Rensheng's identifiable net assets acquired, the fair values to be assigned to the identifiable assets and liabilities of Weihai Rensheng could only be determined provisionally. Any adjustments to the provisional values of the acquired identifiable assets and liabilities will be adjusted on a retrospective basis from the acquisition date. Therefore the share of loss of an associate to be recognised may vary, if any.

Notes to the Unaudited Interim Financial Report *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

13 INVENTORIES

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Raw materials	23,448	37,811
Work in progress	6,938	9,430
Finished goods	90,941	58,174
	121,327	105,415

14 TRADE RECEIVABLES

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Bills receivable*	83,793	133,529
Trade debtors	80,188	53,958
Less: allowance for credit loss	(4,688)	(3,557)
	75,500	50,401
	159,293	183,930

* At 30 June 2021 and 31 December 2020, the Group's bills receivable of RMB40,987,000 and RMB46,346,000 were endorsed to suppliers, respectively. As the Group has not transferred the substantial risks and rewards relating to these bills, the Group's management determined not to derecognise the carrying amounts of these bills and the associated trade payables.

Notes to the Unaudited Interim Financial Report *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

14 TRADE RECEIVABLES *(Continued)*

Ageing analysis

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

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

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Current to 3 months	40,787	42,580
3 to 6 months	30,496	4,589
6 to 12 months	3,613	2,813
Over 12 months	604	419
	75,500	50,401

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

15 CASH AND CASH EQUIVALENTS

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Bank deposits	53,802	297,038

Notes to the Unaudited Interim Financial Report *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

16 TRADE AND BILLS PAYABLES

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

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Current to 3 months	84,567	77,174
3 to 6 months	17,117	18,533
6 to 12 months	5,484	4,454
Over 12 months	9,837	8,424
	117,005	108,585

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

17 BANK AND OTHER LOANS

		At 30 June 2021		At 31 December 2020	
	Note	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Current					
Borrowings from banks					
— secured	(i)	—	—	4.79%	95,000
— unsecured					
USD denominated	(ii)	4.70%	49,097	4.50%	46,196
RMB denominated		4.79%	50,000	4.79%	30,000
Other borrowings		3.00%–3.80%	35,008	3.10%	7,304
Total			134,105		178,500
Non-current					
Borrowings from banks					
— secured	(i)	6.98%	20,000	6.98%	20,000
Total			20,000		20,000

Notes to the Unaudited Interim Financial Report *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

17 BANK AND OTHER LOANS *(Continued)*

Notes:

- (i) As at 30 June 2021, these borrowings were secured by the Group's right-of-use assets. The borrowings at the end of year 2020 were secured by the Group's property, plant and equipment and right-of-use assets.
- (ii) Unless otherwise indicated, the bank and other loans are denominated in RMB.

As of the end of the reporting period, the borrowings were repayable as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Within 1 year or on demand	134,105	178,500
After 1 year but within 5 years	20,000	20,000
	154,105	198,500

18 EQUITY SETTLED SHARE-BASED TRANSACTIONS

On 14 June 2018 (the "Adoption Date"), the Company adopted the Share Option Scheme whereby the Board are authorised, at their discretion, to invite employees, director, consultant, adviser and distributor, contractor, business partner or service provider of the Group, to take up options subscribe for shares of the Company. 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 800,000,000 share.

On 19 July 2019, the Company granted 16,000,000 share options to eligible persons (the "Grantees") under the Share Option Scheme. The options vest after three months from the date of grant and are then exercisable within a period of nine months. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

On 30 June 2020, the Annual General Meeting approved the proposed amendment of terms of share options granted, extending the exercise period of the outstanding options for the period from the current expiry date, being 19 July 2020, to 13 June 2028.

For the six months ended 30 June 2021, no share-based payment expenses and other reserve was recognised by the Group (for the six months ended 30 June 2020: RMB17,632,000).

No share options mentioned above have been exercised, forfeited or expired during the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

Notes to the Unaudited Interim Financial Report *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

19 SHARE CAPITAL

	2021		2020	
	No. of shares	Amount RMB'000	No. of shares	Amount RMB'000
Authorised-ordinary shares of HKD0.01 each:				
At 1 January and 30 June	2,000,000,000	16,354	2,000,000,000	16,354
Ordinary shares, issued and fully paid:				
At 1 January	774,012,000	6,513	800,000,000	6,732
Cancellation of treasury shares (Note 20)	(4,078,000)	(34)	(14,006,000)	(118)
At 30 June	769,934,000	6,479	785,994,000	6,614

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

Notes to the Unaudited Interim Financial Report *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

20 PURCHASE OF OWN SHARES

When the Company's shares are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. The repurchased shares are classified as treasury shares. The par value of treasury shares purchased is debited to a reserve called "treasury shares reserve" and the premium to par value is shown as an adjustment to share premium. The cancellation of the shares shall be transferred to a reserve called the "capital redemption reserve", with share premium adjusted accordingly.

Month/year	Number of shares repurchased	Highest price paid per share HKD	Lowest price paid per share HKD	Aggregate price paid HKD'000	Number of shares cancelled	Number of treasury shares
May 2020	7,701,000	3.53	3.27	26,349	–	7,701,000
June 2020	10,423,000	3.47	3.21	35,037	(14,006,000)	4,118,000
July 2020	6,775,000	3.51	3.14	22,506	–	10,893,000
August 2020	–	N/A	N/A	–	(7,531,000)	3,362,000
September 2020	991,000	4.64	3.81	4,349	(3,362,000)	991,000
October 2020	98,000	3.70	3.58	359	–	1,089,000
December 2020	3,578,000	4.68	4.49	16,533	(1,089,000)	3,578,000
January 2021	500,000	4.75	4.75	2,375	–	4,078,000
June 2021	–	N/A	N/A	–	(4,078,000)	–
	30,066,000			107,508	(30,066,000)	

The amount paid for the repurchase of 500,000 shares during the six months ended 30 June 2021 was paid wholly out of share premium. On 7 June 2021, the Company cancelled 4,078,000 of the repurchased shares.

As at 30 June 2021, the Group does not hold any repurchased shares (31 December 2020: 3,578,000). Treasury shares are not entitled for dividends and are recognised as deduction from equity in the Group's consolidated statement of financial position.

Notes to the Unaudited Interim Financial Report *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

21 DIVIDENDS

(a) Dividends payable to equity shareholders attributable to the interim period

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Interim dividend declared after the interim period of RMB0.57 cents (equivalent to HKD0.68 cents) per share (2020: RMB0.45 cents (equivalent to HKD0.51 cents) per share)	4,389	3,493

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

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

	2021	2020
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB0.46 cents (equivalent to HKD0.54 cents) per ordinary share (2020: RMB0.37 cents (equivalent to HKD0.40 cents) per ordinary share)	3,560	2,908

22 COMMITMENTS

Capital commitments of the Group outstanding as of the end of the reporting period are as follows:

	At	At
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
Contracted for	67,328	103,617

Notes to the Unaudited Interim Financial Report *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

23 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2021, the Group has entered into the following material related party transactions:

	Note	Six months ended 30 June	
		2021 RMB'000	2020 RMB'000
Purchase of goods	(i)	9,683	19,479
Receiving ancillary services	(ii)	10,145	145
Loan to a joint venture	(iii)	45,000	–
Interest receivable on loan to a joint venture	(iii)	933	–
Loan from a related party	(iv)	30,000	–
Interest paid on loan from a related party		710	710
(Withdrawal of)/net deposits with a related party	(v)	(28,419)	21,749

- (i) During the six months ended 30 June 2021, the Group purchased packing material from Henan Fusen Great Health Industry Limited (河南福森大健康產業有限公司, “Fusen Great Health”) amounted to RMB6,719,000 (six months ended 30 June 2020: Nil). In addition, the purchase of goods mainly represents medicinal herbs (Ionicera japonica and baikal skullcap root) purchased from Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited (浙川縣福森中藥材種植開發有限公司) and steams purchased from Fusen Great Health.
- (ii) The Group purchased construction and installation services from Xichuan Fusen Goods and Materials Limited (浙川縣福森物資有限公司) during the six months ended 30 June 2021 amounted to RMB10,000,000 (six months ended 30 June 2020: Nil). The others represent amounts paid and payable to Nanyang Fusen Magnesium Powder Limited (南陽福森鎂粉有限公司) and Fusen Great Health in respect of ancillary services such as short-term leases of premises and other services.
- (iii) Represent unsecured advances to Jiangxi Yongfeng Kangde Pharmaceutical Company Limited (江西永豐康德醫藥有限公司) for the period from February 2021 to August 2021. The advances are interest-bearing at 5.22% per annum.
- (iv) Represent unsecured non-interest-bearing borrowing received from Henan Fusen Shiye Group Limited (河南福森實業集團有限公司) for one year.
- (v) Represent (withdrawal of)/net deposits placed in Henan Xichuan Rural Commercial Bank Company Limited (河南浙川農村商業銀行股份有限公司).

Notes to the Unaudited Interim Financial Report *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

24 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 30 June 2021 RMB'000	Fair value measurements as at 30 June 2021 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Listed equity securities	5,129	5,129	–	–
Capped cross currency swap	(75)	–	(75)	–

	Fair value at 31 December 2020 RMB'000	Fair value measurements as at 31 December 2020 categorised into Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Listed equity securities	15,489	15,489	–	–
Capped cross currency swap	(2,761)	–	(2,761)	–

Valuation techniques and inputs used in Level 2 fair value measurements. The fair value of capped cross currency swap is the estimated amount that the Group would receive or pay to transfer the swap at the end of the reporting period, taking into account the spot exchange rate as at the period end.

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 30 June 2021 and 31 December 2020.

25 EVENTS AFTER THE REPORTING PERIOD

As of the date of the report, there was no material event occurred for the Group after the reporting period.