福森药业
FUSEN PHARMACEUTICAL

福森藥業有限公司
FUSEN PHARMACEUTICAL COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1652

2021 ANNUAL REPORT

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Cao Changcheng *(Chairman)*
Mr. Cao Zhiming
Mr. Hou Taisheng
Ms. Meng Qingfen
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. Wong Tik Man

AUTHORISED REPRESENTATIVES

Mr. Cao Zhiming
Mr. Wong Tik Man

INVESTOR RELATIONS

Mr. Cao Zhiming

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

Windward 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

Corporate Information *(Continued)*

HONG KONG SHARE REGISTRAR

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

CAYMAN ISLANDS SHARE REGISTRAR

Ocorian Trust (Cayman) Limited
Windward 3
Regatta Office Park
PO Box 1350
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 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

Financial Summary

RESULTS

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Revenue	**385,664**	486,854	407,388	462,061	452,580
Cost of sales	**(174,531)**	(220,787)	(194,900)	(210,744)	(200,634)
Gross profit	**211,133**	266,067	212,488	251,317	251,946
Other net (loss)/income	**(2,815)**	4,734	25,194	23,641	5,918
Selling and distribution expenses	**(90,946)**	(107,407)	(112,805)	(89,587)	(90,704)
General and administrative expenses	**(65,235)**	(78,874)	(58,729)	(49,304)	(44,980)
Impairment loss on goodwill and intangible assets	**–**	(22,637)	–	–	–
Profit from operations	**52,137**	61,883	66,148	136,067	122,180
Net finance costs	**(7,097)**	(7,730)	(6,869)	(12,253)	(5,844)
Impairment on interest in a joint venture	**(19,280)**	–	–	–	–
Share of profit of a joint venture	**11,669**	24,252	4,535	–	–
Share of loss of an associate	**(13,638)**	–	–	–	–
Profit before taxation	**23,791**	78,405	63,814	123,814	116,336
Income tax	**(7,178)**	(15,737)	(11,555)	(21,905)	(19,285)
Profit for the year	**16,613**	62,668	52,259	101,909	97,051

ASSETS AND LIABILITIES

	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000
Total assets	**1,239,336**	1,241,347	1,176,229	1,163,262	951,220
Total liabilities	**582,392**	583,098	494,689	547,163	768,443
Total equity	**656,944**	658,249	681,540	616,099	182,777

Chairman's Statement

Dear Shareholders,

2021 was very challenging for the operations of Fusen Pharmaceutical Company Limited (the "**Company**") and its subsidiaries (the "**Group**"). Henan province, as one of the most important sales regions of the Group, suffered from severe flood in summer and autumn of 2021 and the COVID-19 spread following. The sudden outbreak and spread of the COVID-19 has created great market uncertainty, especially for the Group's major products, namely Shuanghuanglian Oral Solutions and Shuanghuanglian Injections. With the gradual easing of the flood and the pandemic, there is a smooth recovery in the Group's sales. Despite serious challenges, the Group donated RMB3.0 million to Henan Red Cross for flood relief, showing the Group's social responsibility and commitment.

In terms of production, the construction of the new plant was basically completed in 2021. A new production license was obtained in 16 November 2021 and the operations of the plant can be officially commenced. Compared with the old plant, the new plant has a higher production capacity and more modernised production equipment, laying a solid foundation for the Group to expand its scale of sales and enhance its product quality in the future.

In terms of product research and development, the Group's Metformin Hydrochloride Sustained Release Tablets passed consistency evaluation. Consistency evaluation applications of Flunarizine Hydrochloride Capsules and Metoprolol Tartrate Tablets were submitted to Center for Drug Evaluation, NMPA for evaluation. Research and development of preparation of original drug and injection of brivaracetam for the treatment of Epilepsy has started. In terms of the research and development of Chinese medicine, the Group continues to conduct research and development of existing product. Pharmacological and toxicological research of Yuanhu Zhitong Oral Solutions (元胡止痛口服液) and Ganweikang Tablets (肝維康片) has been completed and relevant academic articles have been published. Pharmacological research on three classic ancient prescriptions has been completed. Preparations prepared by hospitals will be developed in cooperation with major hospitals of Chinese medicine.

The Group's equity investment in 34% of equity interest of Weihai Rensheng Pharmaceutical Group Company Limited* (威海人生藥業集團股份有限公司) ("**Weihai Rensheng**") was completed in May 2021. Weihai Rensheng obtained approval of nearly 20 national exclusive traditional Chinese medicines, covering treatment areas including orthopedics, dermatology and pediatrics. The Group will continue to look for products with market potential for acquisition.

In order to enhance the Group's own ability in research and development, Jiaheng (Zhuhai Hengqin) Pharmaceutical Technology Company Limited* (嘉亨(珠海橫琴)醫藥科技有限公司) ("**Jiaheng**") was incorporated in 2021. It located in Traditional Chinese Medicine Science and Technology Industrial Park of Co-operation between Guangdong and Macao in Hengqin, Zhuhai. Jiaheng is going to be the research and development centre of the Group's proprietary Chinese medicine and chemical medicine. Jiaheng owns independent research and development laboratories and equipment, and will gradually take up the research and development projects of the Group. The establishment of Jiaheng will further enhance the research and development ability of the Group. Jiaheng is qualified of being a Marketing Authorization Holder (MAH) as well.

Looking forward, it is expected that the social and economic impacts of the COVID-19 pandemic will last for a while. The Group will swiftly respond to various changes, continuously optimize product structure and sales system, and enhance product sales to cope with challenges of the market. 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
23 March 2022

Management Discussion and Analysis

Overview

2021 was very challenging for the operations of the Group. The COVID-19 pandemic, natural disasters and the changes in the pharmaceutical policies of the PRC brought along various challenges to the Group's operations. In summer and autumn of 2021, Henan province suffered from severe flood and the spread of the COVID-19. As the most important sales region of the Group, the special condition of Henan had a more profound impact on the overall sales of the Group. With the gradual easing of the flood and the pandemic, there is a recovery in the Group's sales. Despite serious challenges, the Group donated RMB3.0 million to Henan Red Cross for flood relief, reflecting the Group's social responsibility and commitment.

The PRC has implemented a centralised volume-based drug procurement since 2018. Ceftazidime for injection (Cephradine), the core product of the Group's joint venture Jiangxi Yongfeng Kangde Pharmaceutical Company Limited*（江西永豐康德醫藥有限公司）("**Jiangxi Yongfeng Kangde**"), was listed on the fifth national centralised procurement list in 2021, resulting in a more significant impact in the sales of Cephradine in the fourth quarter of 2021. Jiangxi Yongfeng Kangde has actively responded to market changes , took advantage of its own sales team and applied differentiated sales strategy. It is expected that with the gradual implementation of annual procurement limit of Cephradine, there will be a recovery in sales of the product in the second quarter of 2022. It is believed that imported original drugs with consistent quality and precise efficacy will still have its share in the Chinese market.

In terms of production, the construction of the new plant was basically completed in 2021. A new production license was obtained in 16 November 2021 and the operations of the plant can be officially commenced. Compared with the old plant, the new plant has a higher production capacity and more modernised production equipment, laying a solid foundation for the Group to expand its scale of sales and enhance its product quality in the future. Meanwhile, product supply was unstable due to the switch of production capacity between new and old plants, and this affected the sales of the Group in 2021 to a certain extent.

In October 2020, the Group received a notification from the local government, requiring the Group to relocate part of its production facilities due to zone development requirements of the area. In December 2021, the Group entered into a compensation agreement with the local government, and pursuant to the agreement, the local government will compensate the Group in the amount of approximately RMB42,744,000 for the relocation. At 31 December 2021, the Group has substantially completed the relocation and the related property, plant and equipment and the land use right were disposed of. A net loss of RMB13,035,000 on the relocation has been recognised in "other net loss — net losses on disposal of long-term assets" in the statement of profit or loss and other comprehensive income in 2021.

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The Group's equity investment in 34% of equity interest of Weihai Rensheng Pharmaceutical Group Company Limited*（威海人生藥業集團股份有限公司）("**Weihai Rensheng**") was completed in May 2021. Weihai Rensheng obtained approval of nearly 20 national exclusive traditional Chinese medicines, covering treatment areas including orthopedics, dermatology and pediatrics. After completion of the investment by the Group, Weihai Rensheng's operating capital was replenished and capital structure was optimised. Meanwhile, a new sales team was introduced to the management and market strategies were adjusted, hence sales increased in the second half of 2021. However, Weihai Rensheng was still in loss-making position by the end of 2021. The Group bore the loss in proportion to its equity interest in Weihai Rensheng and recognised the loss in 2021.

Business Review

The revenue and gross profit were approximately RMB385.7 million and RMB211.1 million in 2021, representing a decrease of approximately 20.8% and 20.7% respectively as compared with the corresponding period of 2020. The decrease in product sales was mainly attributable to the impact of the pandemic, the flood in Henan during summer and autumn of 2021 and the product supply shortage caused by construction of the Group's new plant. The gross profit margin of the Group's product was approximately 54.7% in 2021, basically in line with that of 2020. The selling and distribution expenses were approximately RMB90.9 million in 2021, representing a decrease as compared with approximately RMB107.4 million for the corresponding period of 2020. The general and administrative expenses were approximately RMB65.2 million in 2021, representing a decrease from approximately RMB78.9 million of the corresponding period 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. The operating profit of the Group amounted to approximately RMB52.1 million in 2021, representing a decrease of approximately RMB9.8 million or approximately 15.8% as compared with RMB61.9 million in 2020. This is mainly due to the decline in operational revenue. The profit attributable to the equity shareholders of the Company amounted to approximately RMB16.6 million in 2021, representing a decrease of approximately RMB53.5 million in the corresponding period of 2020, mainly due to the impairment on interest in a joint venture, namely Jiangxi Yongfeng Kangde and loss of an associate, namely Weihai Rensheng. Henan Fusen Pharmaceutical Company Limited*（河南福森藥業有限公司）("**Henan Fusen**"), a wholly-owned subsidiary of the Company, continued to record earnings, laying a solid foundation for the Group's continuous healthy business development.

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OUTLOOK

Despite various challenges, the management of the Group is confident in overcoming the obstacles. Commencement of operations of the new plant was the basis of enhancement in production capacity and product quality and it made production of new products possible. In 2021, the Group successively resumed the production of Nicardipine Hydrochloride Injection and Propantheline Bromide Tablets, among which Nicardipine Hydrochloride Injection won the tender in the centralised procurement of pharmaceutical products in 14 provinces led by the Henan province in December 2021, creating an opportunity for sales improvement. The Group will continue to look for products with market potential for acquisition, research and development or agency to gradually optimise the product structure of the Group.

In terms of product research and development, the Group's Metformin Hydrochloride Sustained Release Tablets passed consistency evaluation. Consistency evaluation applications of Flunarizine Hydrochloride Capsules and Metoprolol Tartrate Tablets were submitted to Center for Drug Evaluation, NMPA for evaluation. Research and development of preparation of original drug and injection of brivaracetam for the treatment of Epilepsy has started. In terms of the research and development of Chinese medicine, the Group continues to conduct research and development of existing product. Pharmacological and toxicological research of Yuanhu Zhitong Oral Solutions（元胡止痛口服液）and Ganweikang Tablets（肝維康片）has been completed and relevant academic articles have been published. Pharmacological research on three classic ancient prescriptions has been completed. Preparations prepared by hospitals will be developed in cooperation with major hospitals of Chinese medicine.

In order to enhance the Group's research and development ability, Jiaheng (Zhuhai Hengqin) Pharmaceutical Technology Company Limited*（嘉亨(珠海橫琴)醫藥科技有限公司）("**Jiaheng**") was incorporated in 2021 in Traditional Chinese Medicine Science and Technology Industrial Park of Co-operation between Guangdong and Macao in Hengqin, Zhuhai as the research and development centre of the Group's proprietary Chinese medicine and chemical medicine. Jiaheng owns independent research and development laboratories and equipment, and will gradually take up the research and development projects of the Group. The establishment of Jiaheng will further enhance the research and development ability of the Group. Jiaheng is qualified of being a Marketing Authorization Holder (MAH) as well.

Looking forward, it is expected that the social and economic impacts of the COVID-19 pandemic will last for a while in 2022. The Group will swiftly respond to various changes, continuously optimize product structure and sales system, and enhance product sales to cope with challenges of the market.

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FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately RMB101.2 million, or 20.8%, from approximately RMB486.9 million for the year ended 31 December 2020 to approximately RMB385.7 million for the year ended 31 December 2021. The following table sets out a breakdown of the Group's revenue generated from principal products during the years ended 31 December 2021 and 2020:

	Year ended 31 December				
	2021		2020		
	Revenue RMB'000	**% of total**	Revenue RMB'000	% of total	Growth rate %
Shuanghuanglian Oral Solutions (10 ml)	**163,606**	**42.4%**	219,781	45.1%	–25.6%
Shuanghuanglian Oral Solutions (20 ml)	**59,285**	**15.4%**	75,460	15.5%	–21.4%
Subtotal	**222,891**	**57.8%**	295,241	60.6%	–24.5%
Shuanghuanglian Injections	**34,758**	**9.0%**	46,036	9.5%	–24.5%
Compound Ferrous Sulfate Granules	**21,648**	**5.6%**	22,123	4.5%	–2.1%
Flunarizine Hydrochloride Capsules	**20,647**	**5.4%**	18,844	3.9%	9.6%
Others products	**85,720**	**22.2%**	104,610	21.5%	–18.1%
Subtotal	**162,773**	**42.2%**	191,613	39.4%	–15.1%
Total	**385,664**	**100.0%**	486,854	100.0%	–20.8%

The decrease in revenue of the Group was primarily due to the decrease in the sales of Shuanghuanglian Oral Solutions and Shuanghuanglian Injections.

Cost of sales

Cost of sales decreased by approximately RMB46.3 million, or 21.0%, from approximately RMB220.8 million for the year ended 31 December 2020 to approximately RMB174.5 million for the year ended 31 December 2021. Such decrease was generally in line with the decrease in revenue.

Gross profit and gross profit margin

Gross profit decreased by approximately RMB55.0 million from approximately RMB266.1 million for the year ended 31 December 2020 to approximately RMB211.1 million for the year ended 31 December 2021. The Group's profit margin was approximately 54.7% for the year ended 31 December 2021, which was consistent with that for the year ended 31 December 2020.

Other net (loss)/income

Our other net loss in 2021 primarily consists of net losses on disposal of long-term assets, net material and scrap sales income, government grants and others. The other net loss decreased by approximately RMB7.5 million to approximately RMB2.8 million for the year ended 31 December 2021 from that of 2020, primarily due to the net effect of government grants and loss on disposal of long-term assets.

Selling and distribution expenses

Our selling and distribution expenses primarily consist of wages and salaries, logistics charges, advertisement expenses, commission fee, service fee, business travel expenses and other miscellaneous expenses. The selling and distribution expenses decreased by approximately RMB16.5 million, or 15.4%, from approximately RMB107.4 million for the year ended 31 December 2020 to approximately RMB90.9 million for the year ended 31 December 2021, mainly due to cost control.

General and administrative expenses

Our general and administrative expenses primarily consist of wages and salaries, consultant, research and development cost, depreciation and others. The decrease of the general and administrative expenses by approximately RMB13.7 million, or 17.4%, from approximately RMB78.9 million for the year ended 31 December 2020 to approximately RMB65.2 million for the year ended 31 December 2021, was mainly due to the financial impact arising from an extension of the granted option to grantees in 2020.

Impairment on interest in a joint venture

Impairment on interest in a joint venture was arising from Jiangxi Yongfeng Kangde. The core product of the Jiangxi Yongfeng Kangde was listed on the fifth national centralized procurement list in 2021. With the change in market and regulatory environment, the financial benefits of Jiangxi Yongfeng Kangde will not be realised as expected before. The Group is of the opinion, the carrying amount of the investment in a joint venture was impaired at 31 December 2021.

Share of profit of a joint venture

Share of profit of a joint venture represented the Group interests decrease by approximately RMB12.5 million from approximately RMB24.2 million profit in 2020 to approximately RMB11.7 million profit in 2021. The Group interests is due from Jiangxi Yongfeng Kangde, whose 35.8% shares are owned by the Group.

Share of loss of an associate

Share of loss of an associate represented the loss appropriated from Weihai Rensheng after the acquisition 34% shares of Wehai Rensheng in May 2021.

Income tax expenses

Income tax primarily represents income tax payable by us under relevant PRC income tax rules and regulations. Henan Fusen, our wholly-owned subsidiary, was certified as a High New Technology Enterprise in Henan province and has been entitled to a preferential income tax rate of 15%. Our effective tax rate was 30.2% and 20.1% in 2021 and 2020 respectively. The increase of effective tax rate is mainly due to the recognition of loss arising from a joint venture and an associate.

Profit and total comprehensive income for the year

As a result of the foregoing, the total comprehensive income for the year decreased by approximately RMB45.2 million, or 74.6%, from approximately RMB60.6 million for the year ended 31 December 2020 to approximately RMB15.4 million for the year ended 31 December 2021. The significant decrease is mainly due to the impairment on interest in a joint venture and loss arising from an associate.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2021, the Group had net current assets of approximately RMB20.0 million (2020: RMB112.8 million) and cash and cash equivalents of approximately RMB81.1 million (2020: RMB297.0 million).

As at 31 December 2021, the Group's total equity attributable to shareholders of the Company amounted to approximately RMB658.2 million (2020: RMB659.4 million), and the Group's total debt amounted to approximately RMB236.9 million (2020: RMB198.5 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 2021, the gearing ratio of the Group, which is calculated as the total debt divided by the total equity, was approximately 36.1% (2020: 30.2%). The total debt represents the interest-bearing bank and other loans as at the year end.

CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2021 and 2020 not provided for in the financial statements were as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Contracted for	**1,819**	103,617

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2021 (2020: Nil).

INFORMATION ON EMPLOYEES

As at 31 December 2021, the Group employed 1,243 employees (2020: 1,248 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 2021, the total staff cost (including Directors' emoluments, contributions to defined contribution retirement schemes, bonus and other benefits, share-based payment expenses) amounted to approximately RMB75.6 million (2020: RMB88.3 million).

USE OF PROCEEDS

The shares of the Company have been listed and traded on the Main Board of the Stock Exchange since 11 July 2018 (the "**Listing**"). The net proceeds from the Listing (after deducting the underwriting fees and other listing expenses borne by the Company) amounted to approximately HK$397.0 million (the "**Actual Net Proceeds**") and was planned to be used for the purposes as disclosed in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 28 June 2018.

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	%	Actual Net Proceeds HK$ million	Actual use of the Actual Net Proceeds as at the 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	119.0
Advertising and marketing of our products	10%	39.7	39.7
Expansion of distribution and marketing network	10%	39.7	39.7
Research and development activities	10%	39.7	39.7
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	397.0

The Actual Net Proceeds have been fully utilised as at the date of this report.

TREASURY POLICY

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

CAPITAL STRUCTURE

The Group's capital structure consists of equity interest attributable to shareholders and liabilities. As at 31 December 2021, the Group's equity interest attributable to shareholders amounted to approximately RMB658.2 million (31 December 2020: approximately RMB659.4 million) in aggregate and total liabilities amounted to approximately RMB582.4 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.

CHARGE ON GROUP ASSETS

As at 31 December 2021 and 2020, certain bank borrowings of the Group were secured by the Group's property, plant and equipment and land use rights, which had an aggregate carrying amount of RMB87.1 million and RMB158.8 million as of 31 December 2021 and 2020, respectively.

FOREIGN EXCHANGE EXPOSURE

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

MATERIAL ACQUISITION AND DISPOSAL

On 31 December 2020, Weihai Rensheng, Weihai Haoyang Health Technology Company Limited*（威海浩洋健康科技有限公司）("**Weihai Haoyang**"), Mr. Miao Qizhuang*（苗其壯先生）("**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 (the "**Acquisition**").

Weihai Rensheng is principally engaged in the production and sale of proprietary Chinese medicine in the PRC.

Upon completion of the Acquisition in May 2021, the Group owned 34% equity interest in Weihai Rensheng.

Save as disclosed in this report, during the year ended 31 December 2021 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

These is no significant event subsequent to 31 December 2021 and up to the date of this report which would materially affect the Group's operations and financial performance.

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Biographical Details of Directors, Senior Management and Company Secretary

DIRECTORS OF THE COMPANY

Executive Directors

Mr. Cao Changcheng (曹長城先生), aged 65, 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 Listing Rules) and also a director of a wholly-owned subsidiary of the Company, 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 21 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 recognised 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 Zhiming who is an executive Director and the chief executive officer of the Company.

Mr. Hou Taisheng (侯太生先生), aged 59, 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 20 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.

Mr. Chi Yongsheng (遲永勝先生), aged 60, 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 23 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 57, 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 27 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 *(Continued)*

Mr. Cao Zhiming (formerly known as Mr. Cao Dudu) (曹智銘先生) (前稱曹篤篤先生), aged 36, 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 Zhiming 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 11 years of working experience in securities and corporate finance. Mr. Cao Zhiming'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 Zhiming 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 Zhiming 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 Zhiming is the son of Mr. Cao Changcheng who is our executive Director and the chairman of the Board.

Independent Non-Executive Directors

Mr. Sze Wing Chun (施永進先生), aged 45, was appointed as our independent non-executive Director on June 14, 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 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 21 years of experience in auditing, accounting and taxation.

Mr. Sze is currently an independent non-executive director of Pangaea Connectivity Technology Limited (listed on the Main Board of the Stock Exchange, stock code: 1473).

Mr. Lee Kwok Tung Louis (李國棟先生), aged 54, 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. Mr. Lee 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 accumulated and possessed extensive experience with unlisted groups, listed groups and professional firms in finance, accounting and auditing since 1993.

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), Windmill Group Limited (listed on the Main Board of the Stock Exchange, stock code: 1850), Redsun Properties Group Limited (listed on the Main Board of the Stock Exchange, stock code: 1996), Tus International Limited (listed on the Main Board of the Stock Exchange, stock code: 872) and Zonbong Landscape Environmental Limited (listed on the Main Board of the Stock Exchange, stock code: 1855).

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 January 2015 to May 2016, Zhong Ao Home Group Limited (listed on the Main Board of the Stock Exchange, stock code: 1538) from November 2015 to July 2017, Worldgate Global Logistics Ltd. (listed on GEM of the Stock Exchange, stock code: 8292) from June 2016 to June 2019 and China Singyes New Materials Holdings Limited (listed on GEM of the Stock Exchange, stock code: 8073) from June 2017 to December 2019.

Dr. To Kit Wa (杜潔華博士), aged 48, was appointed as an independent non-executive Director on 13 August 2020. Dr. To obtained a Bachelor of Science in General Biology in 1996, a Master of Philosophy in 2002 and a Doctor of Philosophy in Cancer Biology in 2007 from The University of Hong Kong. She also received the Certificate and the Diploma of Marketing from HKU School of Professional and Continuing Education in 2000 and 2001 respectively.

Dr. To served as an account executive at ACI Group (Hong Kong) Limited from 1996 to 1998. She was a marketing executive at Tak Hing Manufacturing Company Limited from 1999 to 2000 and rejoined as an executive secretary from 2003 to 2004. She then worked as a senior secretary in Belief Wealth Management Co. in 2009. Thereafter, Dr. To joined Winsor (Hong Kong) Limited as an assistant manager to supervise a group of research assistants for the daily operation of a laboratory from 2010 to 2013. Dr. To conducted research in the Laboratory of Biomedical Imaging and Signal Processing in the Department of Electrical and Electronic Engineering, The University of Hong Kong from 2015 to 15 June 2020.

SENIOR MANAGEMENT

Mr. Li Zhen (李鎮先生), aged 44, 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 20 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 63, 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 18 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. Wong Tik Man (王迪民先生), aged 41, was appointed as our company secretary on 29 January 2021. Mr. Wong is responsible for overseeing the compliance and company secretarial matters of our Group. is a member of the Hong Kong Institute of Certified Public Accountants. He obtained a Bachelor of Commerce from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in July 2005.

Mr. Wong has over 16 years of experience in accounting, auditing and company secretarial matters. Prior to joining the Company, Mr. Wong worked for various organisations and audit firms, including Ta Yang Group Holdings Limited (stock code: 1991) from April 2018 to December 2019 as a financial controller. He is currently a director of Windward CPA Limited.

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 principles and code provisions stated in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules, save for the C.6.1 of the CG Code and please refer to the paragraph headed "Company Secretary" on page 30 of this report for details. Since the date of the listing of the Shares (the "**Listing**") 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 fully complied with CG Code, except for the matters disclosed in our announcement dated 23 March 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry, all Directors have fully complied with the required standards set out in the Model Code during the year ended 31 December 2021.

NON-COMPETITION UNDERTAKING

During the year ended 31 December 2021, 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 Mr. Cao Changcheng and Full Bliss Holdings Limited (collectively referred to as the "**Controlling Shareholders**"), 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 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 for the year ended 31 December 2021.

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.

According to the code provision D.1.2 of the CG Code, the management shall provide all members of the Board with monthly updates. For the year ended 31 December 2021, the executive Directors have provided to all other members of the Board updates on any material changes to the position and prospects of the Group, which are considered to be sufficient to provide general updates of the performance of the Group, position and prospects to the Board members and allow them to give a balanced and understandable assessment of the same.

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 2021. 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 Zhiming
Mr. Hou Taisheng
Ms. Meng Qingfen
Mr. Chi Yongsheng

Independent Non-executive Directors

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

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

The proportion of independent non-executive Directors 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 independent non-executive Directors 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 and independent non-executive Directors 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.

Mr. Cao Changcheng is the father of Mr. Cao Zhiming. Save as disclosed, there was no financial, business, family or other material relationship among the Directors during the year ended 31 December 2021.

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 C.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 Zhiming, 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

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.

Each of Mr. Hou Taisheng, Mr. Chi Yongsheng and Mr. Sze Wing Chun will retire from office as Directors at the forthcoming annual general meeting to be held on Tuesday, 31 May 2022 ("**AGM**"), Mr. Hou Taisheng, Mr. Chi Yongsheng and Mr. Sze Wing Chun, being eligible, will offer themselves for re-election at the forthcoming AGM.

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. Sze Wing Chun has met the independence criteria under the Listing Rules. Moreover, Mr. Sze Wing Chun has given confirmation of independence to the Company. With due consideration on the above factors, the Board believes that Mr. Sze Wing Chun is independent.

Biographical details of Mr. Hou Taisheng, Mr. Chi Yongsheng and Mr. Sze Wing Chun, 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. Hou Taisheng, Mr. Chi Yongsheng and Mr. Sze Wing Chun, can contribute to the 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. Hou Taisheng, Mr. Chi Yongsheng and Mr. Sze Wing Chun, 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. Hou Taisheng and Mr. Chi Yongsheng as an executive Director and Mr. Sze Wing Chun as an independent non-executive Director, respectively.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

In compliance with the code provision C.1.4 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.

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors during the year ended 31 December 2021 are summarised as follows:

Directors	Type of training (Note)
Executive Director	
Mr. Cao Changcheng	A,B
Mr. Cao Zhiming	A,B
Mr. Hou Taisheng	A,B
Ms. Meng Qingfen	A,B
Mr. Chi Yongsheng	A,B
Independent Non-executive Director	
Mr. Sze Wing Chun	A,B
Mr. Lee Kwok Tung Louis	A,B
Dr. To Kit Wa	A,B

Notes:

Types of training

A: Attending training sessions, including but not limited to, briefing, seminars, conferences, forums and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications relating to the latest development of the Listing Rules, other applicable regulatory requirements and directors' duties and responsibilities

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.fusenpharma.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.

Directors are encouraged to make a full and active contribution to the Board's affairs to voice out their views and concerns. A culture of openness and debate is promoted to facilitate the effective contribution of independent non-executive Directors and ensure constructive relations between executive and independent non-executive Directors.

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. 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 procedures 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 work performed by the Audit Committee during the financial year ended 31 December 2021 included the following:

- The Group's consolidated financial statements for the year ended 31 December 2021 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 2021 comply with applicable accounting standards and the Listing Rules and that adequate disclosures have been made;

- reviewing the accounting principles and practices adopted by the Group; and

- reviewing the annual results announcement of the Group for the year ended 31 December 2021.

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 independent non-executive Directors, Mr. Lee Kwok Tung Louis and Dr. To Kit Wa. 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 during the year ended 31 December 2021 included the following:

- reviewing the structure, size, composition and diversity of the Board;

- assessing the independence of the independent non-executive Directors; and

- considering the qualifications of the retiring Directors, namely Mr. Hou Taisheng, Mr. Chi Yongsheng and Mr. Sze Wing Chun, 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 independent non-executive Directors, Mr. Lee Kwok Tung Louis (being the chairman of the Remuneration Committee) and Dr. To Kit Wa 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:

- 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 2021. 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 E.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.

Details of the Director's remuneration and five individuals with highest emoluments are set out in Notes 9 and 10 to the consolidated financial statements.

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. The company secretary is responsible for preparing the agenda for each meeting after consulting with the chairman, and all Directors are given the opportunity to include matters for discussion in the agenda. The company secretary sends notice of the Board meeting to the Directors before the meeting is held in accordance with the CG Code and articles of association of the Company. The company secretary also sends the agenda, board papers and relevant information in relation to the Group to the Directors at least 3 days before each Board meeting and committee meeting, and keeps the Directors updated on the Group's performance and latest developments. If any Director raises any queries, steps will be taken to respond to respond to such queries as promptly and fully as possible. Additional meetings are held when significant events or important issues are required to be discussed and resolved.

Eight Board meetings and three Audit Committee meetings, two Remuneration Committee meetings and one Nomination Committee meeting were held during the year ended 31 December 2021. The individual attendance records of the meetings are set out as follows:

	No. of meetings attended during the year ended 31 December 2021				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General meeting
Executive Directors					
Mr. Cao Changcheng	8/8	–	2/2	1/1	1/1
Mr. Cao Zhiming	8/8	–	–	–	1/1
Mr. Hou Taisheng	8/8	–	–	–	1/1
Ms. Meng Qingfen	8/8	–	–	–	1/1
Mr. Chi Yongsheng	8/8	–	–	–	1/1
Independent non-executive Directors					
Mr. Sze Wing Chun	8/8	3/3	–	–	1/1
Mr. Lee Kwok Tung Louis	8/8	3/3	2/2	1/1	1/1
Dr. To Kit Wa	7/8	3/3	2/2	1/1	1/1

Under the code provision C.5.1 of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals. The Directors consider that they have met regularly for the year ended 31 December 2021.

The chairman also held a meeting with independent non-executive Directors without presence of other Directors for the year ended 31 December 2021.

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 eight 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.

Company secretary

Mr. Wong Tik Man was appointed as the company secretary of the Company on 19 January 2021. He is an external service provider to the Company and his primary corporate contact person is Mr. Li Zhen, the chief financial officer of the Company, for the purpose of code provision of C.6.1 of the CG code. The biographical details of Mr. Wong are set out under the section headed "Biographical Details of Directors, Senior Management and Company Secretary".

In accordance with Rule 3.29 of the Listing Rules. Mr. Wong has taken no less than 15 hours of relevant professional training during the year ended 31 December 2021.

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established by the Company and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies and practices on corporate governance and code of conduct applicable to employees and the Directors, reviewing and monitoring training and continuous professional development of the Directors and senior management and the Company's policies and practices on compliance with legal and regulatory requirements, as well as reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

INDEPENDENT AUDITORS' REMUNERATION

During the year ended 31 December 2021, 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	4,200

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. To ensure that the shareholders are familiar with the detailed procedures for conducting poll, detailed procedures for conducting a poll are explained at the commencement of the general meetings, and all questions from shareholders on the voting procedures will be answered before the poll voting starts.

Procedures for Shareholders to Convene an Extraordinary General 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.

Putting Forward Enquiries to the Board

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. The Board has conducted yearly 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 2021, the Company has collected information and carried out investigations in respect of risk management and internal control issues for its subsidiaries. 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; and no material non-compliance of rules or material litigation risk was reported, nor was there any fraud or corruption issue.

Internal control on connected transaction

As a general control, the Group maintained a list of connected persons and entities for the monitoring and identification of connected transaction.

In additional, the risk management and internal control of the Group were reviewed by the external professional consultants for the year ended 31 December 2021. 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.

Independent non-executive directors' view on internal control for connected transactions

The management and independent non-executive Directors will continue monitor connected transactions of the Company. The management and independent non-executive Directors consider that information provided by the Company's management to assist independent non-executive Directors in their annual review of connected transaction is fair and sufficient. The independent non-executive Directors also made regular enquiries upon whether there is any continuing connected transaction exceeding the proposed annual caps to ensure that continuing connected transaction was identified timely. The independent non-executive Directors have not encountered any challenges or difficulties in their annual review of connected transaction of the Company.

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.

According to CG Code Provision F.2.2, the chairman of the Board and all board committees should attend the annual general meeting. The chairman of the board, along with all board committees, have attended the annual general meeting held on 26 May 2021.

The Company also encourages shareholders' active participation in annual general meetings and other general meetings. Notices to shareholders for shareholders' meetings are sent to shareholders before the meetings in accordance with the CG Code and articles of association of the Company to allow sufficient time for their consideration of the proposed resolutions.

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.

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 THIS REPORT

This is the 2021 Environmental, Social and Governance Report (the "**Report**") released by Fusen Pharmaceutical Company Limited (the "**Group**", the "**Company**", "**we**" or "**us**"; stock code: 01652.HK) to the general public. This is the fourth Environmental, Social and Governance Report issued by the Company, which covers the period from 1 January 2021 to 31 December 2021 (the "**Reporting Period**"). The Report, prepared under the requirements of Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), complies with the "comply or explain" principle and represents the disclosure or explanation of the Company's sustainable operation activities for the year ended 31 December 2021 with reference to the Company's actual situation.

During the process of identifying the scope of the reporting boundary, we ensure that the report reflects our ESG impact and performance. Unless otherwise specified, the report covers the ESG performance of the business activities directly operated and managed by the Company for the year ended 31 December 2021.

The report is aligned with the principles of "materiality", "quantitative" and "consistency" as follows.

Materiality: We have conducted a detailed materiality assessment to identify and evaluate key ESG issues that are most important to our business as well as our internal and external stakeholders. The information gathered from the materiality assessment was then used to determine the disclosure content of this report. For details of the materiality assessment, please refer to the section headed "(3) Materiality Assessment".

Quantitative: We disclose measurable environmental and social KPIs and set quantitative performance targets where applicable. The measurement standards, methodologies, assumption and/or calculation tools of the KPIs in this report, as well as the source of the conversion factors used, have been explained in the corresponding context (where applicable).

Consistency: This year's ESG report has been prepared with the same method used in previous years. Changes that may affect a meaningful comparison with previous reports have been explained in corresponding section.

ABOUT FUSEN PHARMACEUTICAL

(1) Business Overview

As a leading Shuanghuanglian-based cold medicine manufacturer in China, in addition to providing our core product, Shuanghuanglian-based cold medicine, the Company engages in the research and development, production and sales of various proprietary Chinese medicine and western medicine products for treating cold, fever, cardiovascular diseases and anemia. Embracing our corporate philosophy, "Health is blessing (健康是福)" and adhering to our service tenet of being dedicated to and responsible for the public health, the Company is committed to improving and enhancing the health and life quality of Chinese nationals.

(2) ESG Management Guidelines and Strategy

As a pharmaceutical manufacturer and supplier, the Company believes that it is important to ensure the safety and sustainability of our pharmaceutical products.

The Company is committed to building a green pharmaceutical brand from the perspective of product quality, providing consumers with safe pharmaceutical products, and continuing to explore more efficient therapeutic formulations with the protection of national health as our starting point. In addition, maintaining stable and effective partnerships with our stakeholders is an important part of the Company's sustainable development. We focus on:

- Providing quality pharmaceutical products and genuine service to consumers;
- Providing a safe and healthy working environment for employees, a fair and open vocational training and development path, and a comprehensive compensation and benefits system to protect the legitimate rights of employees;
- Cooperating with suppliers to create a green and win-win supply chain system;
- Actively listening to the opinions and suggestions of other stakeholder groups, such as government departments and community organisations, and actively engaging in social welfare activities;
- Paying attention to environmental protection and establishing a win-win development relationship between the Company and society.

A good environmental, social and governance structure is vital to the development of the Company. In addition to pursuing growth in performance, we also strive for continuous improvement in the areas of environmental protection, social responsibility and corporate governance, and we hope to improve the transparency of the Company's operations in order to realise and enhance our sense of social responsibility.

(3) Materiality Assessment

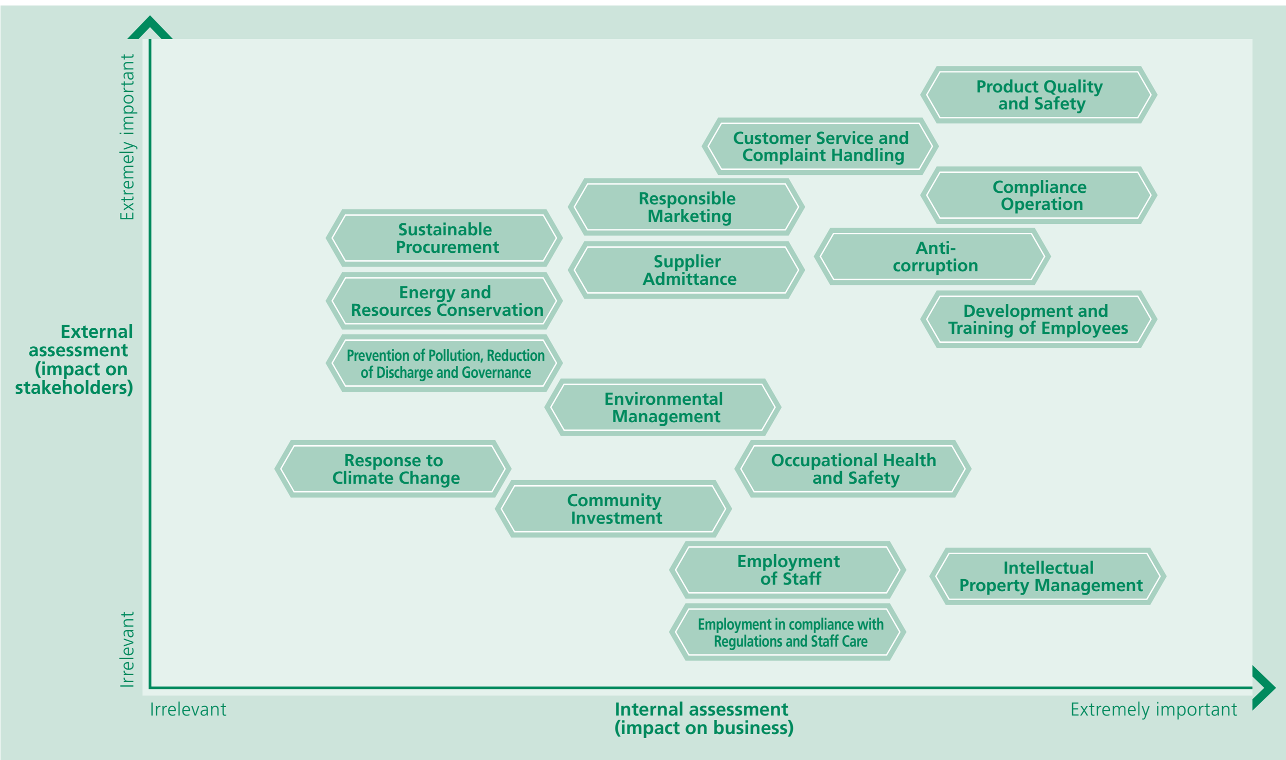
We believe that the economic, social and environmental impacts of the Company are the ESG issues that we need to focus on. We assess the materiality of ESG issues in terms of their impacts on both business and stakeholders and provide responses and disclosures in each section.

Process of materiality assessment is as follows:

Selection of issues — select the social, environmental and management factors that the Company is involved in, i.e. ESG issues, through ESG standard approach, peer benchmarking and corporate social responsibility ("**CSR**") experts' judgments;

Research and analysis — conduct interviews and research on ESG issues with relevant departments and stakeholders to understand the key concerns of internal and external parties;

Confirmation of materiality — formulate materiality analysis matrix for ESG issues based on preliminary research and experts' judgements and opinion.



(4) Stakeholders Analysis

The confirmed stakeholders of the Company mainly include employees, consumers, suppliers, distributors, shareholders and investors, government and market regulators, and in broader terms, communities and the general public. To facilitate a better understanding of the performance of the Company's social responsibility, diversified communication channels, including official WeChat account, official website, email account, annual general meeting and extraordinary general meeting etc., have been established and optimised continuously for the stakeholders.

The Company will continue to optimise the stakeholder communication platforms and mechanism, collect and listen to their opinions and suggestions on our environmental, social and governance issues, and communicate closely with them on each issue.

We believe that considering opinions from stakeholders will allows the Company to assess its performance in respect of the environment, society and governance in a more objective and comprehensive way, thereby promoting a sustainable and healthy development of the Company and contributing to the sustainable development of the wider society.

Stakeholders analysis list of Fusen Pharmaceutical

Stakeholders	Issues of concern	Communication channels and methods	Company's response
Government	Implement the Healthy China strategy Support medical and health system reform Conduct technology Innovation Pay attention to climate change Establish internal control mechanism for compliance operation	Attend meetings organised by the government Report on work conditions Invite visits and inspections Invite experts for training	Compliance operation Anti-corruption Expand social employment Pay taxes by laws Reduce carbon emissions Improve drug accessibility
Shareholders and investors	Investment income Asset preservation and appreciation Regulatory governance Going concern	Annual general meeting and extraordinary general meeting Daily communication and report of business units Financial statements and special audit reports	Improve corporate governance Achieve stable returns Strengthen internal control and risk management

Stakeholders	Issues of concern	Communication channels and methods	Company's response
Consumers	Safe and effective drugs Product quality and after-sales service Customer privacy protection	Organise exchange events Customer service hotline Set up official WeChat and official website Public email account	Accelerate innovative product development Reinforce quality control Reasonable product prices After-sales and complaint management
Employees	Employee rights protection Training and development Occupational health and safety Democratic management	Staff representatives meetings Cultural and sports activities Rationalise proposed communication channels Organise various kinds of training	Establish a standardised employment mechanism Improve the income distribution and welfare mechanism Construct a safe and healthy working environment Strengthen staff training
Business partners (suppliers, distributors, etc.)	Supply chain management Intellectual property protection	Project cooperation Training and exchange Visits evaluation	Equal and mutually beneficial cooperation Jointly promote industry development Sustainable procurement
Community and public	Environmental protection Resources conservation Pollution prevention and control Community welfare and charity Information communication	Precise poverty alleviation Social welfare and charity Disclosure of significant events	Protect the ecological environment Organise social welfare and charity activities Implement precise poverty alleviation Strengthen publicity and brand building Disclose significant events in a timely manner

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE (ESG) MANAGEMENT STATEMENT OF THE BOARD

2021 is the opening year of the "14th Five Year Plan" and also an important juncture for our country to deeply implement the international commitment of 3060 carbon peaks and carbon neutrality, and to promote the strategic goals of rural revitalisation and common prosperity, which has put forward a new era of proposition and higher requirements for enterprises to improve their ESG work.

During the year, Fusen Pharmaceutical faced both challenges and opportunities. As the sporadic outbreak of COVID-19 pandemic became a regular occurrence, local epidemic control authorities restricted or banned the sale of cold, fever and cough medicines, which had an inevitable impact on the Company's business development. However, at the same time, the Company successfully completed the relocation and expansion of production and the construction of supporting health industry during the year, which significantly improved the production process and management level and created better conditions for the Company's ESG management.

In 2021, the Company expanded its ESG practices and disclosures, and prepared the Fusen Pharma 2021 Environmental, Social and Governance Report, which was submitted to the Board for review of related issues and their progress. The Board has also initiated the development of ESG management guidelines and strategies, identified key ESG issues related to the sustainable development of the Company and society and overseen the Company's sustainable development issues.

Fusen Pharmaceutical has always integrated social services into the Company's corporate culture, strategic direction and daily operations, actively practiced the concept of health is blessing, adhered to the mission spirit of "pragmatic and efficient, honest and trustworthy, aggressive and innovative (務實高效、誠實守信、拼博進取、開拓創新)", and strived to be the leader of the health industry and the guardian of people's life and health.

In 2022, the Company will further establish a sound ESG management system and plan to set up an ESG management committee at the management level to be responsible for the Company's ESG vision goals and assessment system, evaluate ESG-related risks and opportunities and coordinate the promotion of the Company's sustainable development.

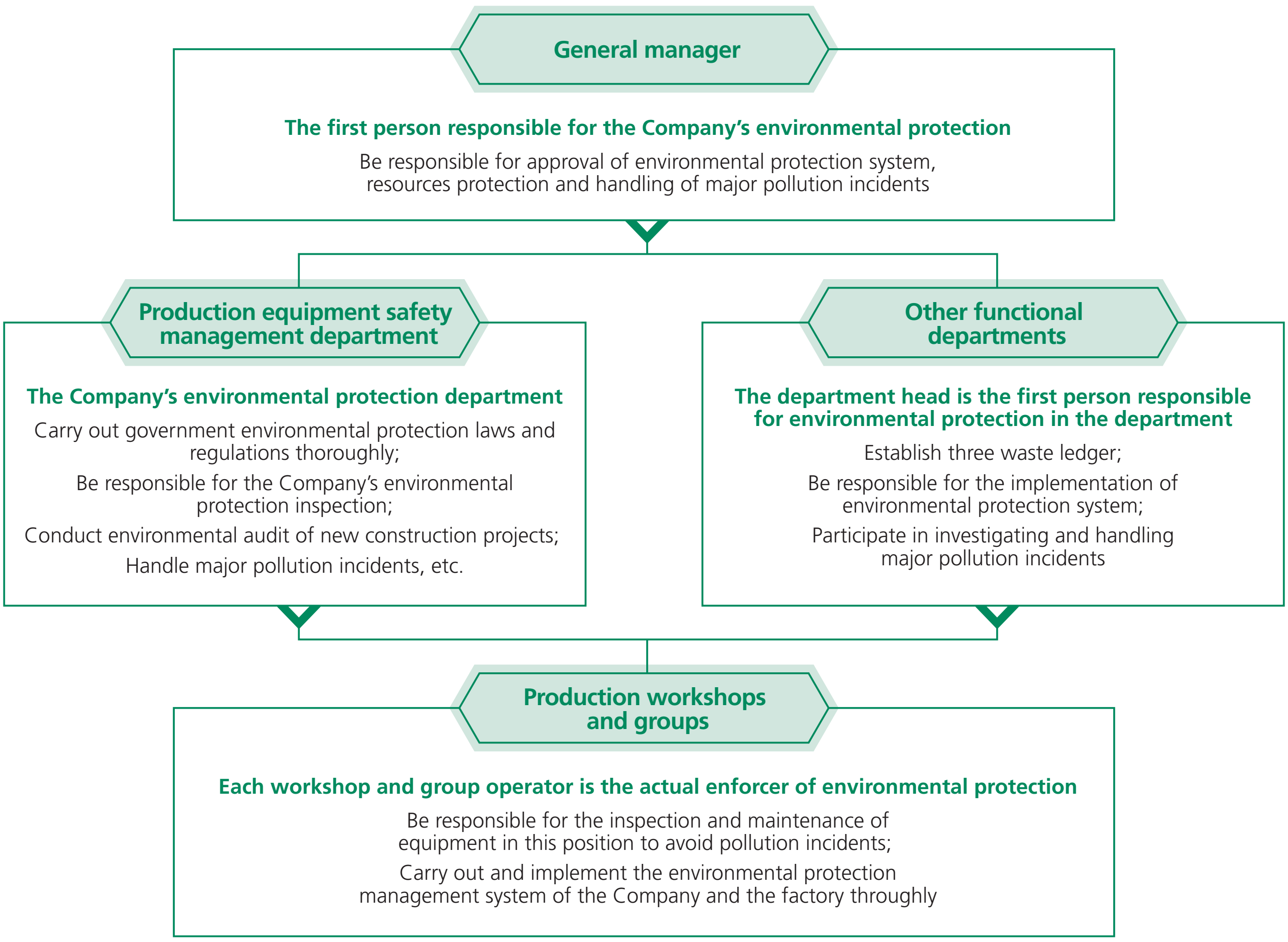
Our responsibility is endless! We will work together with one heart, never forget our original intention and push forward to give full play to the wisdom and power of all employees to make positive contributions to building a richer and better society.

I. ENVIRONMENTAL RESPONSIBILITY

(1) Construction of Environmental Management System

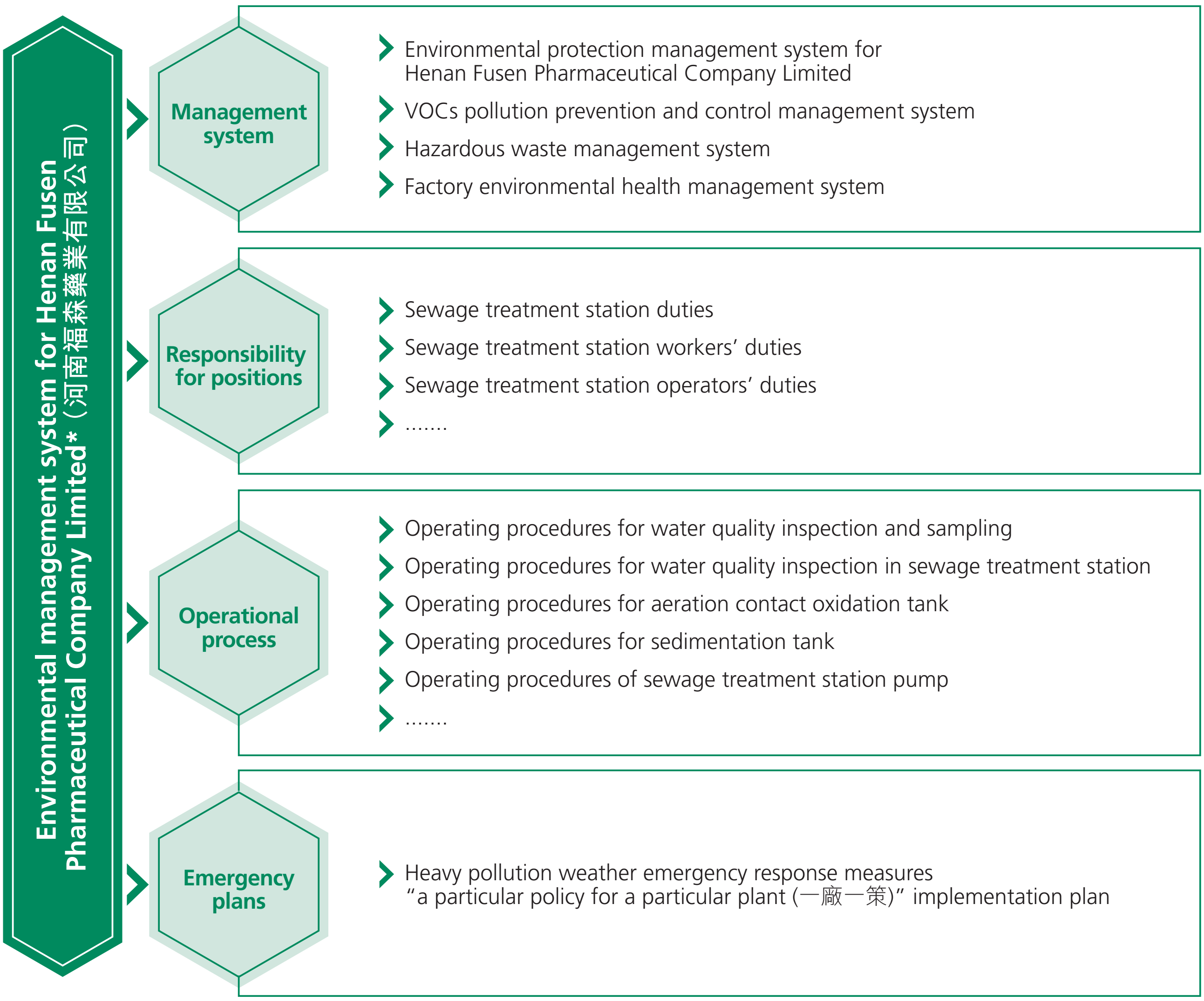
1. Establish an Organisational Structure for Environmental Management

The Company has established a three-level environmental management network directly led by the general manager, with the production equipment safety management department mainly held accountable, and implemented at the department, workshop and group levels, to ensure from the organisational system that the Company's environmental management decisions and systems are fully implemented to the post and to the person.



2. Sound Environmental Management System

The Company strictly adheres to various requirements such as the *Environmental Protection Law of the People's Republic of China*, the *Atmospheric Pollution Prevention and Control Law of the People's Republic of China*, the *Water Pollution Prevention and Control Law of the People's Republic of China* and the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes*, and actively improve the Company's environmental protection management system on such basis, forming an environmental management system with the management system as the framework, the duties and operation procedures of each position as the details, and the environmental protection emergency plan as the protection.



3. Completion of Clean Production Audit

In strict accordance with the *Law of the People's Republic of China on Promoting Clean Production* and the *Measures for Cleaner Production Review*, the Company has continuously improved its clean production level by analysing all aspects of the Company's production process, including raw materials, energy, resource utilisation, equipment, process control, waste emission and recycling, etc., tapping the potential of energy saving and consumption reduction and proposing 31 improvement plans, and passed the clean production audit and acceptance organised by the Nanyang Environmental Protection Bureau of Henan Province in 2017.

The Company's next step is to prepare for the ISO14000 environmental management system certification to further improve the Company's environmental management system with reference to international standards.

(2) Prevention of Pollution, Reduction of Discharge and Governance

1. Waste Water Treatment

The waste water generated by the Company mainly includes the cleaning waste water of Chinese medicine pre-treatment and extraction production line, traditional Chinese medicine extraction waste water, equipment and floor cleaning water; bottle (oral solution and injection bottle) cleaning waste water; laboratory waste water; purification waste water; boiler room waste water; cooling system drainage and staff domestic sewage, etc. The production waste water is discharged into the sewage network after treatment has met the standard at the factory sewage treatment station, and then discharged into the Shuitian River after treatment has met the standard at Xichuan County sewage treatment plant, and finally remitted into the Laoguan River, which has no negative impact to the surrounding water environment.

Factory sewage treatment process

Production of waste water — catch basin — mediation lift tank — sedimentation tank — hydrolysis tank — anaerobic system — A/O tank — secondary sedimentation tank — decolorisation tank — final sedimentation tank — final discharge port

Table 1 Waste water emission of Fusen Pharmaceutical

Performance indicator	Unit	2019	2020	2021
Total emission of waste water	Tonnes/year	108,010.8	137,894.41	**76,892.301**
Emission of COD	Tonnes/year	2.1967	4.341	**1.158**

Note: Due to the impact of the COVID-19 pandemic and the relocation and expansion of production and process upgrade of the Company, emission of waste water was significantly reduced in 2021.

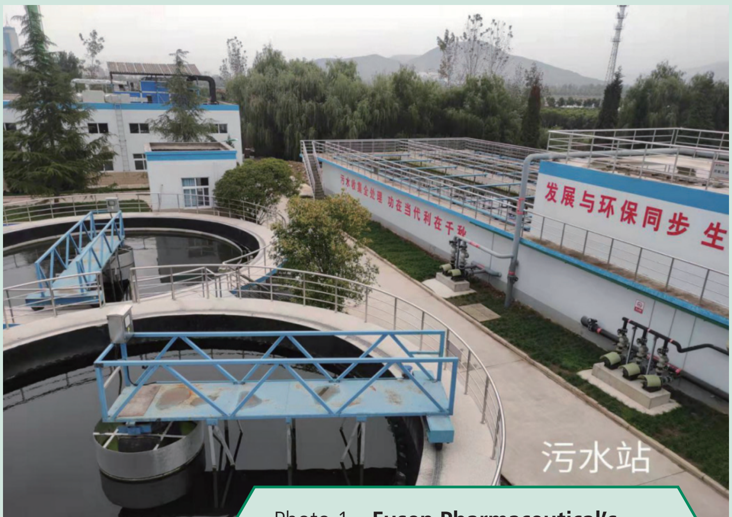


Photo 1 **Fusen Pharmaceutical's factory sewage treatment station**

2. Exhaust Gas Treatment

The exhaust gas generated by the Company mainly includes: boiler exhaust gas, Chinese medicine extraction exhaust gas, production process dust, sewage station odor, experimental animal room odor, etc. The Company strictly complies with the *Comprehensive Emission Standard for Air Pollutants* and the *Emission Standard of Air Pollutants for Pharmaceutical Industry*, and installs pollution control devices such as dust removal and deodorisation at each exhaust gas outlet, disposes of them to meet the standards and emits them through an exhaust pipe of taller than 15m in the air, which does not pollute or affect the surrounding residents.

Exhaust gas outlet	Exhaust gas treatment process
Dust-related processes in each workshop	Dust collection hood + dust collection device + purifying air conditioning system
Natural gas boiler	Low-NOx combustion + FGR flue gas circulation process
Sewage station odor	Installation of collection device + alkaline spraying + activated carbon adsorption
Animal room odor	Installation of collection device + activated carbon adsorption + leading to the sewage station for biological filter treatment after negative pressure ventilation

Table 2 Exhaust gas emission of Fusen Pharmaceutical for the past three years

Performance indicator	Unit	2019	2020	2021
Emission of exhaust gas	Cubic metres/year	31,445,664	50,839,200	**19,369,680**
Emission of nitrogen oxide	Tonnes/year	2.3595	1.467	**0.729**
Emission of sulfur oxides	Tonnes/year	0.3828	0.05	**0.126**
Emission of particulate matter	Tonnes/year	0.3426	0	**0**

Note: Due to the impact of the COVID-19 pandemic and the relocation and expansion of production and process upgrade of the Company, emission of exhaust gas was significantly reduced in 2021.

Photo 2 **Part of Fusen Pharmaceutical's exhaust gas treatment devices**

3. Solid Waste Treatment

The solid waste generated by the Company includes non-hazardous waste such as herbal medicine impurities, medicine residues, packaging waste, employees' household wastes, and hazardous waste such as dust collected from chemical workshops, ion exchange resins, activated carbon from animal rooms and some animal carcasses. For different types of solid waste, the Company follows the principles of recycling economy such as reduction, recycling and reuse, and carries out strict classification and disposal according to the law, so as to reduce waste generation as much as possible, fully ensure the cleanliness and orderliness of the factory and avoid pollution to the surrounding environment.

Type of solid waste	Classification and treatment method
Waste packaging materials	Uniformly sold out
Waste reverse osmosis membrane	Handed over to the manufacturer for recycling
Chinese medicine residues, sewage station sludge	Handed over to third party for fermentation and fertilisation
Other non-hazardous waste	Uniformly transported to Xichuan County landfill
Hazardous waste	Immediately cleaned up upon production, handed over to qualified units for disposal

Table 3 Solid waste emission of Fusen Pharmaceutical

Performance indicator	Unit	2019	2020	2021
Emission of hazardous waste	Tonnes/year	0	0.045	**1.06**
Emission of non-hazardous waste	Tonnes/year	2,284.324	1,755.043	**944.327**

(3) Energy and Resources Conservation

1. Energy Conservation

The Company implements the three-level energy management system of the Company, departments and workshops. The Company has set up an energy saving management team, with the general manager of the Company as the team leader, the deputy general manager in charge of production as the deputy team leader, the leaders of each functional department as the team members, and the permanent organisation of energy management in the production equipment safety management department. The energy management organisation of each workshop is in its workshop office and the workshop supervisor is responsible for the energy management of the workshop.

The Company insists on planning electricity consumption, safe electricity consumption and electricity saving, sets energy consumption quotas for each major energy-consuming product, process, equipment and position according to scientific, advanced and reasonable principles, regularly assesses the completion of the quotas and combines them with reward and penalty measures. At the same time, we actively adopt new energy-saving technologies, new processes, new equipment and new materials. From 2020, the Company changed its coal-fired boilers to natural gas boilers and implemented low-NOx combustion and steam condensate recovery processes to reduce natural gas consumption by 10% per tonne of steam.

Table 4 Energy consumption of Fusen Pharmaceutical for the past three years

Performance indicator	Unit	2019	2020	2021
Electricity consumption	kW/year	4,100,000	6,088,430	**2,850,300**
Natural gas	Cubic metres/year	435,669	2,100,670	**1,045,940**

2. Water Conservation

Water resources consumed by the Company are mainly used for production and manufacturing, office operation, environmental management and emergency and fire service purposes. The Company attaches great importance to water conservation and protection. Monthly water consumption follows strictly with the water consumption plan issued by the competent department of the Water Resources Bureau, and excess water consumption is strictly prohibited. In the daily process, the Company pays attention to adopting circular water-use techniques to improve water consumption efficiency. Responsibility system for water conservation is improved with the leaders of each departments and workshops as the persons responsible for water conservation, and supervision, inspection, reward and punishment assessment of water conservation is strengthened. Education on water conservation is carried out to enhance the awareness of water conservation among all employees, achieving "Turn off the tap after use (隨手關水)" and "Turn off the tap when leaving (人走水關)" to prevent the phenomenon of "running water (常流水)" and to minimise wasting water resources.

Table 5 Water resources consumption of Fusen Pharmaceutical for the past three years

Performance indicator	Unit	2019	2020	2021
Total water consumption	Tonnes/year	107,880	35,599	**52,337**
Average water consumption intensity	Tonnes/RMB10,000 of output	10.8	0.55	**1.10**

3. Packaging Consumables Conservation

The Company's product packaging consumables include materials such as glass, plastic, paper, PVC and aluminum foil. The Company focuses on reducing the amount and the use of packaging materials and plastic products as much as possible in the design of product packaging. The Company's average level of packaging material consumption per RMB10,000 of output continues to decrease.

Table 6 Packaging materials consumed by Fusen Pharmaceutical for the past three years

Performance indicator	Unit	2019	2020	2021
Packaging materials	Tonnes/year	5,072	2,588.36	**3,658.0**
Average consumables intensity	Tonnes/RMB10,000 of output	0.12	0.04	**0.07**

(4) Response to Climate Change

The Company does not directly generate greenhouse gas emissions but indirectly emits carbon dioxide through energy consumption. According to a preliminary estimate, the Company indirectly emitted 4,572.734 tonnes of carbon dioxide in 2021 through electricity and natural gas consumption (carbon dioxide emissions are calculated based on: electricity consumption × carbon dioxide emission coefficient of the Central China regional power grid + natural gas consumption × natural gas discount factor × carbon dioxide emission coefficient of standard coal).

In addition, the Company attaches great importance to the possible significant impact of climate change on the Company and actively avoids the potential risks brought about by extreme weather to the Company's production and operation. According to the requirements of the *Safety Production Management System*, in the event of windy weather of grade 5 (including grade 5) or above, outdoor fire-raising operations at high places should be stopped; welding and cutting operations should be stopped in case of rainy weather in open-air operations, and sufficient lighting equipment should be provided at the site of fire-raising operations at night to minimise casualties and property losses caused by extreme weather.

II. EMPLOYEE RESPONSIBILITY

(1) Employment and Labour Practices

1. Ensuring Equal Employment

The Company attaches great importance to protecting the personal rights and interests of employees and adheres to equal employment. Our staff recruitment and treatment standards strictly comply with relevant laws and regulations of the PRC including the *Labour Law of the People's Republic of China*, the *Labour Contract Law of the People's Republic of China* and the *Social Insurance Law of the People's Republic of China*, with employees of different nationalities, genders and religious beliefs and cultural backgrounds treated equally in recruitment, training, compensation, career growth and promotion, etc. and no boycott or discriminatory words or contents appear in the documents related to the content of employment.

The Company have entered into the *Collective Contract* (《集體合同書》) with the labour union committee, regulating remuneration, working hours, rest time and holidays, insurance and benefits for our labours, in order to establish harmonious labour relations and protect the legal rights and interests of employees.

The Company has entered into the *Contract on Protection of the Rights of Female Staff and Workers* (《女職工權益保護專項合同》) with the labour union committee, which requires the Company to provide special labour protection to female employees during pregnancy and postpartum confinement period. Work breaks are provided to female employees who are pregnant for 7 months or above and adequate maternity leaves and postpartum confinement leaves are provided to those who have given birth. The said contract also states that the proportion of female employee representatives in staff representatives meetings and general meetings of labour union members shall not be lower than that of female employees and there should be female employee representatives among the employee representatives in the consultation panel participating in equal consultations to have a better understanding of the opinion of female employees.

At the end of the Reporting Period, the Company had 1,243 working employees, of whom 650 were male and 593 were female, with a balanced ratio of male to female; the employees were mainly aged 30 (inclusive) to 50 (exclusive), with a reasonable age structure to effectively meet the corporate long-term sustainable development needs. All employees are full-time employees with no employment of part-time workers or contract workers. Most of the employees are located in Henan Province, accounting for approximately 98% of the total number of employees, which greatly supports local employment in Henan Province. At the end of the Reporting Period, the Company had one ethnic minority employee and two employees with disabilities among its employees.

Table 7 Number of employees of Fusen Pharmaceutical (by gender) for the past three years

Performance indicator	Unit	2019	2020	2021
Number of male employees	Persons	477	518	**650**
Number of female employees	Persons	477	499	**593**

Table 8 Number of employees of Fusen Pharmaceutical (by age) for the past three years

Performance indicator	Unit	2019	2020	2021
Number of employees under 30 years old (exclusive)	Persons	177	177	**234**
Number of employees from 30 years old (inclusive) to 40 years old (exclusive)	Persons	349	405	**511**
Number of employees from 40 years old (inclusive) to 50 years old (exclusive)	Persons	345	344	**401**
Number of employees over 50 years old (inclusive)	Persons	83	91	**97**

Table 9 Number of employees of Fusen Pharmaceutical (by region) for the past three years

Performance indicator	Unit	2019	2020	2021
Number of employees in Henan Province (household registration)	Persons	940	1,005	**1,220**
Number of employees in other regions with Chinese nationality	Persons	13	11	**23**
Number of employees in Hong Kong, Macau, Taiwan and overseas	Persons	1	1	**1**

Table 10 Number of employees of Fusen Pharmaceutical (by education background) for the past three years

Performance indicator	Unit	2019	2020	2021
Number of employees with graduate degree or above	Persons	2	2	**3**
Number of employees with bachelor's degree	Persons	65	76	**83**
Number of employees with college degree	Persons	166	184	**328**
Number of employees with high school education or below	Persons	721	755	**829**

2. **Diversified Development of Talents**

On the basis of our corporate values, the Company places great importance on the diversity development of our people. We uphold the principles of fairness, justice and openness in terms of compensation and employment, recruitment and dismissal, promotion and employee benefits, in order to avoid discrimination or injustice of any form in the areas of race, colour, nationality, ethnicity, religion, region, language, age, sex, marital status, disability, and to provide equal opportunities to all employees.

In 2020, the Company implemented salary reform to adjust post salary, job salary and job skill salary. After the reform, the salary is mainly composed of four parts, namely post salary, job salary, job skill salary and seniority salary. Front-line technical staff and operators in key positions (such as electricians, mechanical and electrical maintenance workers, furnace workers, sewage treatment workers, etc.) are also entitled to job subsidies, while ordinary undergraduates and junior college graduates are also entitled to academic allowances.

The *Personnel Recruitment, Management Measures and Relevant Remuneration Regulations* (《人事招聘、管理辦法及有關待遇規定》) was newly promulgated in 2020, pursuant to which, rent-free apartments will be provided for new employees after joining the Company, while middle and senior management members, high-end talents, graduates with a master's degree or above and practical talents can each enjoy an apartment, so as to help employees live and work in peace and contentment. In addition, we offer tuition discounts or subsidies to the children of middle and senior management members, employees with a bachelor's degree or above, marketing staff, and employees in special key positions.

During the Reporting Period, the Company's staff turnover rate was 3.1%, representing a relatively stable workforce.

Table 11 Staff turnover rate (by gender) of Fusen Pharmaceutical for the past three years

Performance indicator	Unit	2019	2020	2021
Male staff turnover rate	%	1.9	1	**2.5**
Female staff turnover rate	%	0.5	0.2	**0.6**

Table 12 Staff turnover rate (by age) of Fusen Pharmaceutical for the past three years

Performance indicator	Unit	2019	2020	2021
Staff turnover rate of employees under 30 years old (exclusive)	%	0.9	0.8	**1.3**
Staff turnover rate of employees from 30 years old (inclusive) to 40 years old (exclusive)	%	0.9	0.3	**1.8**
Staff turnover rate of employees from 40 years old (inclusive) to 50 years old (exclusive)	%	0.5	0.1	**0.2**
Staff turnover rate of employees over 50 years old (inclusive)	%	0.1	0	**0.1**

Table 13 Staff turnover rate (by region) of Fusen Pharmaceutical for the past three years

Performance indicator	Unit	2019	2020	2021
Staff turnover rate of employees in Henan Province (household registration)	%	2.2	1.2	**3**
Staff turnover rate of employees in other regions with Chinese nationality	%	0.2	0	**0.1**
Staff turnover rate of employees in Hong Kong, Macau, Taiwan and overseas	%	0	0	**0**

3. **Safety Production Management**

The Company continues to strengthen the safety management of the Company and is committed to providing a safe working environment and protecting employees from occupational hazards. The Company deeply implements the laws and regulations such as the *Production Safety Law of the People's Republic of China*, the *Labour Law of the People's Republic of China* and the *Fire Control Law of the People's Republic of China*, establishes and improves the long-term mechanism of safety management of the Company, raises the safety awareness of all employees, regulates the safety operation procedures and ensures the smooth production and operation of each unit and process of the Company.

Safety production policy:
"Safety first, Prevention-oriented, Comprehensive governance"

The Company has issued the *Safety Production Management System*, which provides detailed regulations on safety production capital protection, occupational disease hazard prevention system, safety production inspection system, safety production hidden danger investigation system, fire safety management system, etc. It strengthens personnel operation behaviour management, improves on-site warning signs and conducts training and learning for all employees to control and eliminate potential risks in the production process and achieve safe production.

(2) Health and safety

1. **Occupational Health Protection**

The Company strictly complies with the requirements of the *Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases* and other laws and regulations to ensure the health and safety of its employees by creating a healthy and safe working environment based on prevention, equipping with protective equipment, organising health checkups and conducting relevant training, etc. In 2021, there was no major occupational health incident in the Company.

- Optimisation of working environment: All workshops are dust-free and clean, each unit is equipped with safety equipment such as fire-fighting equipment and alarm equipment, and employees are given hands-on training and drills.

- Equipping with protective equipment: Employees exposed to occupational hazards are equipped with appropriate and effective personal labour protective equipment, and regular inspections are conducted in each workshop to see if the labour protective equipment is in place and worn by employees.

- Organising health checkups: Conduct occupational health checkups for workers exposed to occupational hazards before, during (once a year) and after leaving the workplace, and establish occupational health file tracking and management for workers.

- Conducting relevant training: The city labour union is regularly invited to the Company to conduct activities such as "Psychological Care Seminar on Safety Production" and psychological crisis intervention, so that employees can learn and master the knowledge of mental health protection to ensure their physical and mental health.

- Care for female employees: Provide protection for female employees in accordance with the *Regulations Concerning the Labour Protection of Female Staff and Workers* (《女職工勞動保護規定》) issued by the State Council, protect the interests of female employees in accordance with the laws and safeguard the rights of female employees to enjoy health and equal employment opportunities.

Photo 3 **Organising and conducting psychological care training**

Photo 4 **Participating in training on labour protection for female workers**

(3) Development and Training

1. Creating a Learning Enterprise

In order to actively promote the construction of a learning enterprise, the Company has made talent work the "Chairman's Project" of the group company, established the talent management committee of the group company and formulated the *Regulations on the Management of All Employees' Normalised Learning and Training Assessment* (《全員常態化學習培訓考核管理規定》). Employees are encouraged to use their spare time to actively participate in self-study examinations to upgrade their academic qualifications (bachelor's degree or above) and to apply for national professional and technical titles, in addition to the titles and qualifications required for their positions.

2. Developing Systematic Training

In accordance with the principle of classification and grading of training, the Company adopts a combination of "going out and inviting in, centralised and decentralised (走出去與請進來，集中與分散)", establishes a mechanism of "passing on experience (傳幫帶)", a mechanism of theoretical training, a mechanism of platform practice and a mechanism of joint training by combining the comprehensive quality, professional situation and hobbies of employees and continue to improve the professional ability and management level of all kinds of staff.

Training type	**Cultivation of young reserve talents**	Through the old to replace the new, expert guidance, regular seminars, external training, pressure burden, etc., to strengthen the guidance and cultivation of young reserve personnel.
	Cultivation of highly-skilled talents	Through school-enterprise cooperation and combining work and study, the training and cultivation mode of "online + offline" and "remote + on-site" is implemented to accelerate the cultivation of high-skilled talents.
	Training and cultivation of general staff	By using the annual training as a grip and through regular tracing and evaluation, each unit is urged to strengthen the training and cultivation of general staff.
Training method	**External training**	We focus on strengthening cooperation with relevant higher education institutions or professional institutions to cultivate high-quality applied talents who can adapt to the development of enterprises.
	Internal training	We strengthen "staff ideology education, training on professional knowledge and rules and regulations (員工思想教育、專業知識和各項規章制度培訓)" as the main focus, and improve the overall quality of staff through targeted training at different levels, categories and positions.

The Company regularly conducts employee seminars, group building activities and social activities, and establishes a sound internal vertical and horizontal communication mechanism to mobilise the initiative of employees and pool their ideas to serve the development of the enterprise.

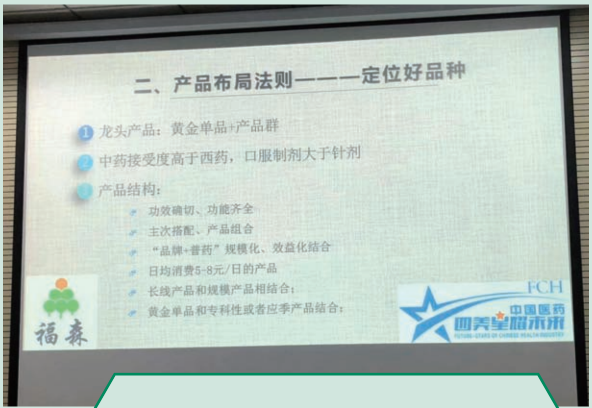


Photo 5 **Organising staff training**

Photo 6 **Organising staff skills competition**

Table 14 Training received by Fusen Pharmaceutical's employees (by gender) for the past three years

Performance indicator	Unit	2019	2020	2021
Number of male employees trained	Persons	468	509	**486**
Number of female employees trained	Persons	459	486	**455**
Number of hours of training for male employees	Hours	36	40	**48**
Number of hours of training for female employees	Hours	36	40	**48**

Table 15 Training received by Fusen Pharmaceutical's employees (by rank) for the past three years

Performance indicator	Unit	2019	2020	2021
Number of senior management trained	Persons	22	23	**24**
Number of middle management trained	Persons	87	83	**83**
Number of hours of training for senior management	Hours	60	60	**60**
Number of hours of training for middle management	Hours	36	40	**48**

(4) Labour Standards

1. Insisting on the Compliance of Labour Use

The Company fully complies with the relevant rules and regulations prohibiting the use of child labour and forced labour. The Company's human resources management system fully protects the legal rights and interests of employees, prohibits the use of child labour or any form of forced labour, and prohibits the use of violence, threats or unlawful means of restricting personal freedom to compel labourers to work. During the Reporting Period, the Company was not aware of any case of hiring child labour and forced labour.

- Prohibit the use of child labour: The Company has formulated the *Documents on Policies and Procedures to Prevent Employment of Child Labour* (《防止僱傭童工政策及程序文件》), which requires the Company to verify the authenticity of the identity information, account information and the relevant information provided during the recruitment process before new employees are hired and onboarding formalities will be carried out only when recruitment conditions are met. We do not employ any applicant who is under legal age. When a new employee joins the Company, the receiving department is required to re-examine the identity documents. For any minor under the age of 16 found, the Company shall seek such individual's opinions and escort him/her back to his/her original place of residence as required and ask for his/her parents or guardian's signed confirmation upon the minor's arrival.

- Respect for employees' labour: the Company signs labour contracts with employees, specifies the working hours of the labourers, negotiates with the labourers in case of extension, does not force employees to work overtime and provides overtime pay. Since 2011, the Company has implemented a paid leave system.

2. Promoting Union Building

The Company has established staff representatives meetings and entered into collective contracts with employees on equal consultation. At the same time, it has also established matching democratic management systems such as the system for open factory affairs and the system for organising women's work committees, which have served as a standardised guide for staff to fully develop democracy and effectively supervise the actions of the Board.

During the development process of the enterprise for more than ten years, all major decisions involving the vital interests of the employees, such as the signing of collective labour contract between the Company and employees, wage adjustment plan, unemployment, pension, medical care, work injury insurance, personnel use and new major projects, are considered and approved by the staff representatives meetings or the staff assembly, and we are determined to implement the powers and functions of the staff representatives meetings and give full play to the role of the staff representatives meetings, letting the staff to make the decision on all major issues. We do not approve any plans without the signature of the staff representatives meeting, which not only protects the rights and interests of the staff, but also mobilises their enthusiasm. The union insists on visiting and talking to 1-2 units every quarter to understand the staff's thoughts and demands in a timely manner, and collects rationalised suggestions from staff through multiple channels and reports them for implementation.

In 2021, the staff proposed a rationalised suggestion to the union to update the uniforms. The union responded positively and promptly implemented the proposal by giving each staff member equipment such as jackets, suits and T-shirts.

3. Work-life Balance

The Company advocates work-life balance, improving and enriching employees' lives and creating a harmonious working atmosphere by supporting employees in difficulties and organising team building activities such as red tours and technical competitions. From 2019 to 2021, the Company's condolences for supporting employees in poverty accumulated to RMB91,000.

- Support for employees in difficulties: Establish a database of employees in poverty and implement daily and dynamic support for those in difficulties; visit and discuss with subsidiaries regularly to understand the situation of families in difficulties and implement precise support; offer condolences to employees who suffer from serious illnesses, accidents or disasters that cause difficulties in life at the end of each year.

- Implementing staff motivation: Equip employees with fully equipped apartment suites; give tuition subsidies to employees' children in primary and secondary schools, and give scholarships to those who are admitted to undergraduate colleges and universities; give extra housing subsidies, living subsidies and equity incentives to outstanding talents, so that the living and material environment of employees can be continuously improved.

- Organising various activities: Through red travel, study tour, field training, on-the-job training, technical competition, technical training and other activities, our employees can achieve happy work and happy life.

Party building activities

Cultural performances

Sports activities

Photo 7-12 **Organising various activities for employees**

III. SUPPLY CHAIN MANAGEMENT

(1) Supplier Admittance

The Company complies with the *Company Law of the People's Republic of China*, the *Tendering and Bidding Law of the People's Republic of China* and other relevant regulations and is committed to building stable relationships with suppliers while meeting social, environmental, legal and ethical standards. At the end of the Reporting Period, the Company had a total of 60 suppliers.

The Company has formulated and issued the *Supplier and Procurement Management System* (《供貨商及採購管理制度》) in strict compliance with the requirements of the *Pharmaceutical Administration Law of the People's Republic of China*, the *Good Manufacturing Practice for Pharmaceutical Products* ("**GMP**") and other relevant laws and regulations, which specifies supplier admittance, periodic evaluation, auditing and evaluation standards, and material quality evaluation standards to implement strict selection on suppliers.

Supplier admittance process:

- The Company should determine the material safety level based on quality risk of manufactured pharmaceutical product, amount of materials used and the degree of impact of the supplied materials on the quality of pharmaceutical products, and require suppliers of materials with different safety levels to provide corresponding qualification proofs to ensure the qualifications of the suppliers meet the required conditions;

- On the basis of ensuring that the qualifications of the suppliers meet the conditions, the quality control department of the Company cooperates with the material supply department and production department to conduct a preliminary assessment on the quality management level of suppliers;

- By conducting qualification auditing and/or on-site auditing on the suppliers that passed the preliminary assessment based on the material safety level, we guarantee product quality and safety at source;

- We only purchase materials from qualified suppliers under our audit and assessment.

The audit standards we rely on mainly include:

- *Good Manufacturing Practice for Pharmaceutical Products* as the standard for active pharmaceutical ingredients
- *Good Manufacturing Practices for Pharmaceutical Excipients* as the standard for pharmaceutical excipients
- *Pharmaceutical Administration Law of the People's Republic of China* as the standard for Chinese herbal medicine
- *Regulations for the Management of Packaging Materials and Containers in Direct Contact with Pharmaceuticals* as the standard for packaging materials and containers in direct contact with pharmaceuticals

Table 16 Number of Fusen Pharmaceutical's suppliers in different regions

Performance indicator	Unit	Southwest China	Northern China	Northeast China	Central China	Southern China	Northwest China
Number of suppliers in different regions	Numbers	10	5	2	23	15	5

(2) Sustainable Procurement

The Company regulates the entire life cycle of supplier selection, admittance, evaluation, maintenance, use and elimination, and expect suppliers to meet legal requirements regarding occupational health and safety, anti-discrimination, environmental protection and anti-corruption.

The *Supplier and Procurement Management System* requires the Company to establish supplier quality files for all qualified suppliers and implements regular quality assessment system. The system also stipulates that the Company shall conduct comprehensive assessment and grading for all suppliers in respect of various factors, including qualification rate of product inspected, product price, on-time delivery rate, credit period and suitability every two years. On-site inspections are conducted as required, and for those who fail to meet the requirements, their supplier qualifications will be cancelled accordingly. The Company communicates with and collects feedbacks from suppliers with continued cooperation, and supervises them to carry out the necessary quality improvement and consider adopting the strategy of pre-emptive right to procure materials from suppliers with outstanding assessment results for two consecutive years. During the Reporting Period, there was no material or significant dispute between the Company and its suppliers.

In the future, the Company will further improve supplier management requirements and include suppliers' performance in environmental, social and corporate governance aspects into the inspection.

IV. PRODUCT RESPONSIBILITY

(1) Product Quality and Safety

1. Systematic Management

The Company strictly complies with the requirements of laws and regulations such as the *Pharmaceutical Administration Law of the People's Republic of China,* the *Regulations for the Implementation of Drug Administration Law of the People's Republic of China,* the *Good Manufacturing Practice for Pharmaceutical Products,* the *Product Quality Law of the People's Republic of China,* the *Law of the People's Republic of China on Protection of Consumer Rights and Interests*, and by adhering to our service philosophy of "Health is blessing", it strives to ensure product quality and safety to provide consumers with safe and reliable medicines. In the past three years, no products were returned to the Company for reasons of product quality, safety or health, and no complaints were received in relation to products or services.

Table 17 Product return rate of Fusen Pharmaceutical for the past three years

Performance indicator	Unit	2019	2020	2021
Product return rate	%	0	0	**0**

The Company has set clear quality objectives, established a quality management system in accordance with the *Good Manufacturing Practice for Pharmaceutical Products* (2010 version) and appendix, set up quality management departments, production management departments and other management organisations, and clearly defined the responsibilities of each department and the corresponding management personnel. The Company has a sufficient number of management and operation personnel with appropriate qualifications (including academic qualifications, training and practical experience), and has introduced a large number of pharmacy-related professionals to enrich the production and quality teams. The persons in charge of production and quality management are all experienced in management and do not work concurrently with each other. The Company has formulated an annual training plan and is able to implement it according to the plan. At the same time, the Company conducts quarterly GMP self-inspection in accordance with the requirements of the *Pharmaceutical Administration Law*, the *Good Manufacturing Practice for Pharmaceutical Products* (2010 version) and appendix.

2. Institutionalisation

The *Quality Risk Management Procedures* formulated by the Company assess, control and review the risk factors that may affect product quality to ensure the product quality is applicable to the quality risk management at all stages of the life cycle of the Company's pharmaceutical products, including research and development, production and sales.

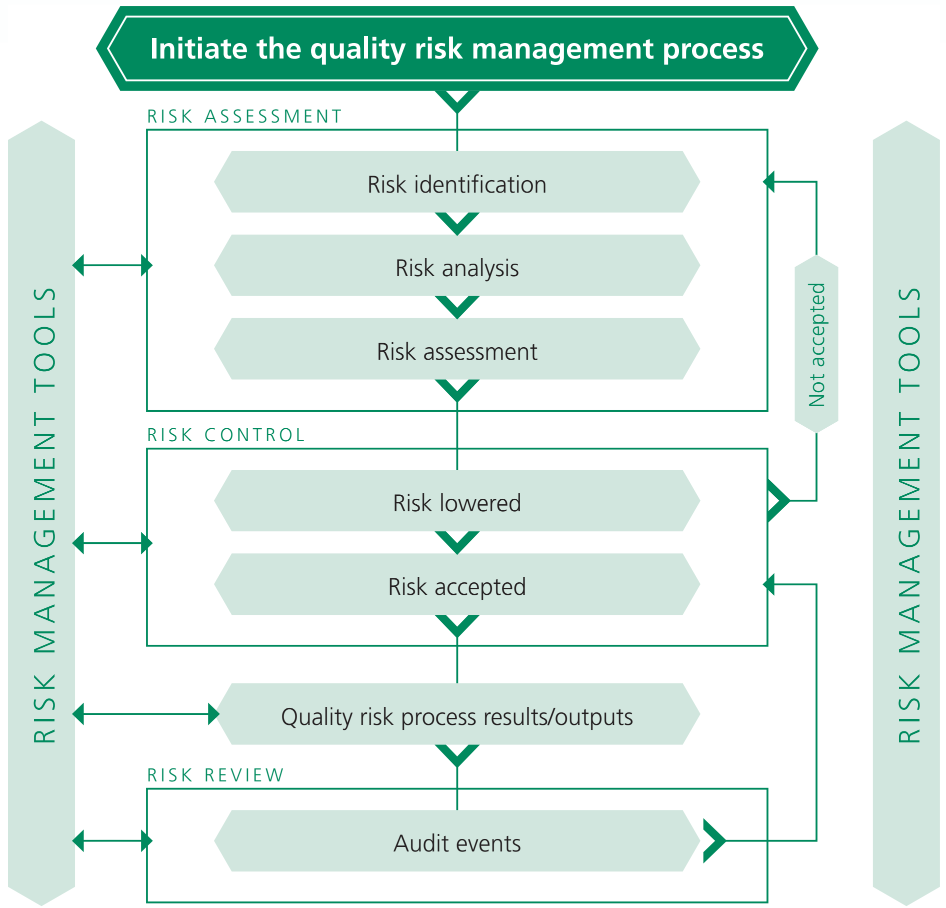


Figure 13 Flow chart of quality risk management of Fusen Pharmaceutical

The Company also formulates the *Quality Objectives Management Regulations* to ensure that the Company's quality policy and objectives are achieved through the management of quality objectives; establishes the *Quality Assurance System* to form an organic whole of quality management with clear tasks, responsibilities, authority, coordination and mutual promotion to ensure that products and services meet the required quality requirements; establishes the *Quality Control System* to ensure that the necessary inspections are completed before the release of materials or products to confirm that their quality meets the requirements.

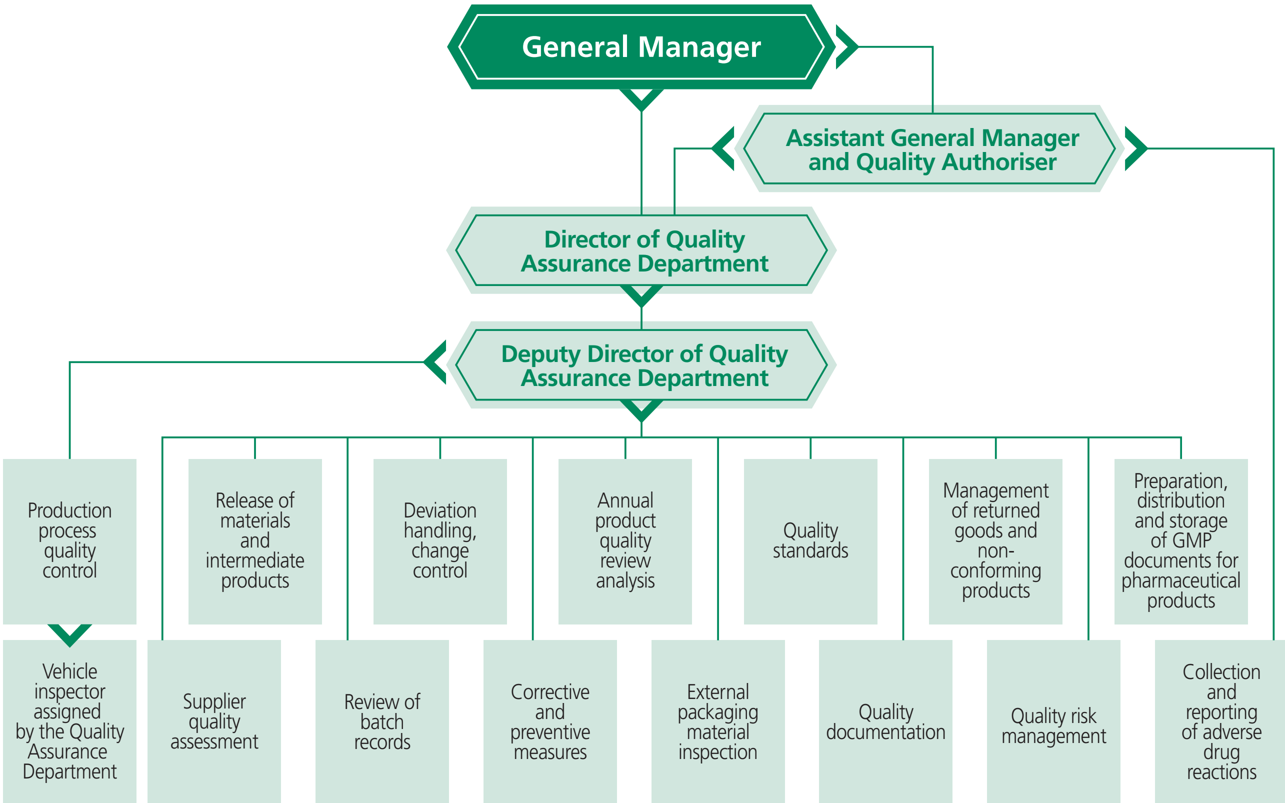


Figure 14 Quality Assurance System of Fusen Pharmaceutical

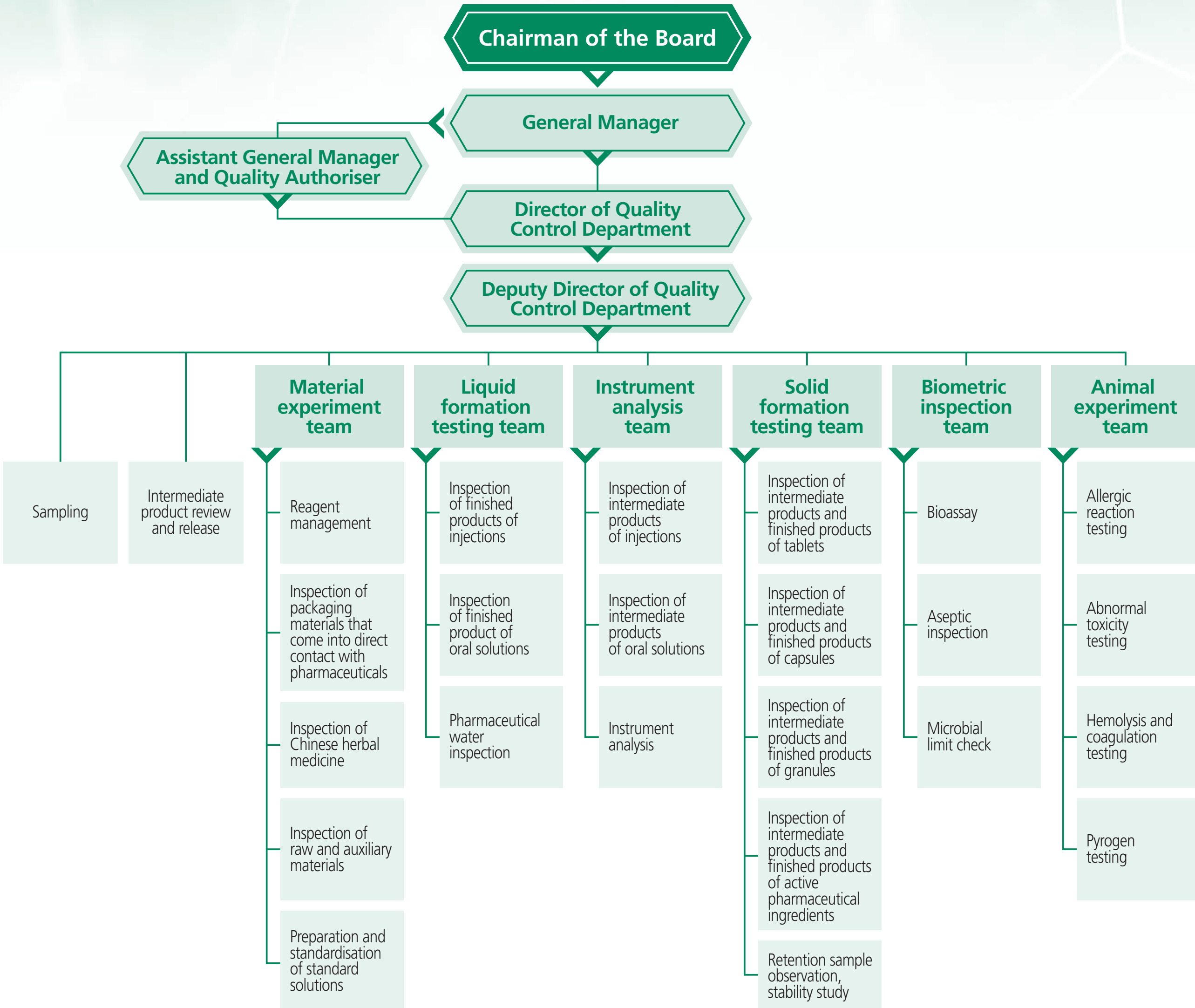


Figure 15 Quality Control System of Fusen Pharmaceutical

In the entire production process of pharmaceutical products, the Company comply with the *Good Manufacturing Practice for Pharmaceutical Products* to implement strict quality control and ensure the adaptability among our staff, facilities, equipment and scale of product production; production can proceed to the next stage only after all of the previous production phases meet the standards; and quality supervision has been exercised during the process of purchasing raw material, production, storage and transportation of finished goods.

The Company's *Supplier and Procurement Management System* provides that, during the process of raw materials procurement and acceptance inspection, it has to apply a rigorous audit management and admittance approval to suppliers and enter into quality assurance agreements with the cooperating suppliers. Acceptance inspection, sampling, testing and release of arriving raw materials are carried out by inspectors and quality assurance personnel and any storage of unqualified raw materials is prohibited.

3. Innovative Development

The therapeutic areas of the Company's existing products cover heat-clearing and detoxifying, cardiovascular and cerebrovascular, antihypertensive and hypoglycemic, tonifying, qi-regulating, anti-anemia, antibacterial and anti-inflammatory, etc., among which:

- The sales volume of Shuanghuanglian Oral Solutions and Shuanghuanglian Injections, both of which are heat-clearing products, have ranked among the top three of similar products across the nation for many consecutive years, and they are approved as "National Conformity Assessment Quality Reliable Products" and "Henan Province High-quality Products";

- Flunarizine Hydrochloride Capsules, the cardiovascular and cerebrovascular product, is the first generic product across the nation, ranking first in domestic sales volume of similar products for five consecutive years;

- The three exclusive varieties of qi-regulating products, including Yuanhu Zhitong Oral Solutions, Ganweikang Tablets and Yixinkang Tablets (which is the cardiovascular and cerebrovascular product), are listed in the national traditional Chinese medicine protection varieties.

The Company always stands at the forefront of medical technology, adheres to the innovative development strategy, implements the policy of "integration of Chinese and Western, combination of long and short, and combination of imitation and innovation (中西結合、長短結合、仿創結合)", and takes the road of new drug development of "generation of production, generation of reserves, generation of research and innovation (產一代、儲備一代、研創一代)", making research and development innovation as the strategic basis for the high-quality development of the Company. Fusen (Shenzhen) Biomedical R&D Co., Ltd.* (福森(深圳)生物醫藥研發有限公司) and Fusen (Macau) Co., Ltd.* (福森(澳門)有限公司) have been established successively as the R&D centres in the field of improved and innovative drugs to continue to strengthen R&D capabilities and broaden product portfolios and strive to create a "health industry group integrating medicine, chemical medicine and biopharmaceuticals".

Under the background of Healthy China, the Company will adhere to the corporate philosophy of "ingenuity quality • health is a blessing (匠心品質•健康是福)", which takes science and technology as the forerunner, establish its presence in the traditional Chinese medicine industry, absorb modern technology and play its healthy role to create a century-old Fusen and a century-old brand, thereby contributing to the development of the national pharmaceutical industry.

* *For identification only*

4. Strengthening of GMP Management

The Company has always adhered to the pharmaceutical philosophy of "survival by quality (以品質求生存)" and established a GAP planting base for Chinese herbal medicine with the advantage of the rich Chinese herbal resources in the 800-mile Funiu Shan and the first-grade water resources in the Danjiang Reservoir area of the South-to-North Water Diversion to ensure the quality of the products from the source. It has strictly complied with the requirements of the national GMP production standards, constantly optimised the production process, strictly controlled the procedures, and used ingenuity to create medicines that "reassure the people (讓老百姓放心)".

To further strengthen the quality management of pharmaceutical products, enhance the quality awareness of all staff and comprehensively improve the level of implementation of GMP, the Company launched an action to strengthen the management of GMP. With reference to the GMP and product production process, it has been rectifying and improving the defective items in the plant and hardware such as facilities and equipment, and conducting regular inspections of the six management categories on the production site to further improve the product manufacturing environment. Under the GMP training and learning programme, the Company also invited industry experts to conduct training on quality management of pharmaceutical products in relation to weaknesses in the implementation of pharmaceutical GMP.

Fusen Pharmaceutical was relocated and successfully passed the acceptance inspection

The relocation and expansion of pharmaceutical production and the supporting healthy industry construction project of Henan Fusen Industrial Group is the key construction project invested by the group company in order to make full use of the brand advantages and capital advantages after the listing of the pharmaceutical industry and break the development bottleneck of the old factory area. It is the key support for the development and upgrading of the pharmaceutical industry and the "driving engine" of the high-quality development of Fusen Group.

The project commenced construction on 1 April 2019 and entered the equipment installation stage in March 2021. On 12 July, the oral solution workshop and extraction workshop first entered the trial production stage, and other workshops successively commenced trial production on time and quality. From 29 to 31 October 2021, the change of production site of tablets, hard capsules, granules (pre-treatment and extraction of traditional Chinese medicine) and mixture (oral solution) of Henan Fusen Pharmaceutical Company Limited has successfully passed the on-site inspection of drug production license organised by the Henan Provincial Food and Drug Evaluation and Inspection Center and the drug GMP compliance inspection. On 16 November, the change of production address was approved by the Henan Medical Products Administration. From 3 to 5 December 2021, the change of production site of small volume injection successfully passed the on-site inspection of drug production license organised by the Henan Provincial Food and Drug Evaluation and Inspection Center and the drug GMP compliance inspection. On 16 December, the change of production address was approved by the Henan Medical Products Administration. At present, the project has been fully put into operation and achieved results.

(2) Customer Service and Complaint Handling

1. Customer Complaint Handling

The Company attaches great importance to customers' opinions and reasonable needs. In order to establish a regular handling system for user opinions, ensure the standardization and formalization of their handling, and achieve the purpose of user satisfaction, the Company has formulated the *Complaint Handling Management Regulations* to continuously strengthen the management of customer complaints.

Complaint handling procedures:

- After receiving a user's complaint, the quality assurance department will immediately find out the cause of the complaint and evaluate it to determine the nature of the problem and handle it in a timely manner.

- After receiving a user's complaint, if we can meet the user's request by submitting a written or oral reply, a reply shall be made immediately or within 3 days, and a sample may be given if necessary.

- If the reply needs to be investigated, we shall investigate the cause immediately to the relevant department, make a record and reply to the user within a week. If it is not a product quality issue of the company, we shall also explain to the user.

- All user's complaints shall be recorded (including product name, specification, batch number, quantity, date of complaint, main content of the complaint, investigation, handling, etc.), numbered and kept for one year after the effective date of the product.

At the same time, in response to the reference opinions provided by users on the quality of the Company's products, the *Procedures for Handling Medical Consultations and Complaints* are formulated for quality issues that have no clinical significance (user's misunderstanding after changing the packaging style, minor damage to the outer packaging, etc.), serious adverse reactions and other quality issues that are harmful to the health of users, and are handled uniformly by the director of the office of pharmacovigilance.

During the Reporting Period, the Company received a total of 4 quality-related complaints; in the past three years, the number of complaints received by the Company has decreased year by year.

Table 18 Product complaints of Fusen Pharmaceutical for the past three years

Performance indicators	Unit	2019	2020	2021
Number of product complaints	Items	14	9	**4**

2. Product Recall Mechanism

In accordance with the requirements of relevant national laws and regulations, the Company has formulated the *Drug Recall Management Regulations*, the *Drug Return Management Regulations* and other systems to regulate the management of product return or recall due to quality defects, ensure product quality, and safeguard personal protection safety.

Scope of recall	Products with quality defects are found in the sample retention observation. There were user complaints regarding products with quality defects verified. The relevant department conducts random inspection on products with unqualified items.
Recall procedures	For products to be recalled, the quality assurance department prepares relevant written materials and submits them to the management for review and approval. After the product recall is approved, the quality assurance department will issue a recall notice. After receiving the recall notice, the sales company will recall the product immediately according to the sales channel. After the product recall, the warehouse keepers will register the product and fill in the unqualified product destruction form, and the deputy quality manager will destroy the product under the supervision of the quality assurance department.

(3) Responsible Marketing

1. Integrity Marketing

The Company conducts various marketing activities in accordance with the *Administrative Licensing Law of the People's Republic of China*, the *Advertising Law of the People's Republic of China*, the *Interim Measures for the Administration of Censorship of Advertisements on Drugs, Medical Devices, Dietary Supplements and Formula Foods for Special Medical Purposes* by the State Administration for Market Regulation and other laws and regulations. The advertisements officially published by the Company have been reviewed by the Henan Administration for Market Regulation.

2. Consumer Privacy Protection

The Company strictly abides by the laws and regulations related to customer privacy protection, such as the *Internet safety Law*, the *Administrative Measures for Internet Information Services*, and the *Law of the People's Republic of China on the Protection of the Rights and Interests of the Consumers*, and conducts user data safety management. The Company ensures that there is no unauthorised information leakage or disclosure and will not share and transfer the personal privacy information of other companies, organisations and individuals without the consent of regulatory authorities and the users' knowledge.

(4) Intellectual Property Management

The Company has developed and promulgated the *Intellectual Property Management System*, which regulates the management of patents, trademarks, copyrights and their neighboring rights, technical and trade secrets, corporate trade names and various service marks, and provides for the integration of intellectual property management into the management of all aspects of the Company's research and development and operations. In addition, the Company's skills and innovation department is responsible for the identification, application, registration, registration and evaluation of intellectual property rights, as well as the coordination and resolution of disputes and controversies relating to intellectual property rights. The Company formulates an annual plan for intellectual property management by taking into account its actual situation, and links it effectively with other enterprise specific management plans, and make an annual summary of intellectual property in a timely manner. Meanwhile, the Company invites external intellectual property agency firms to teach relevant knowledge on site to strengthen training and education on intellectual property laws and regulations, and enhance the awareness and ability of enterprises to protect intellectual property.

V. ANTI-CORRUPTION

(1) Establishing a Sound System

The Company has zero tolerance for violations of business ethics, strictly complies with relevant laws and regulations, establishes and improves the anti-fraud control and supervision mechanism, effectively prevents the occurrence of bribery, fraud and corruption, and controls the fraud risk of the Company.

The Company has formulated and promulgated the *Anti-Fraud and Corruption, Anti-Commercial Bribery and Reporting Management System* applicable to Directors, senior management, all employees, and all business partners (including suppliers, distributors or other related parties), which clearly stipulates the concept of fraud, corruption and commercial bribery, the scope of application of the system, the attribution of responsibilities, prevention and control measures, penalties, complaint reporting channels, etc., so as to warn employees of the harm of the incident and play a deterrent role.

Attribution of duties	• The Board the Company leads the Company's anti-fraud, corruption and commercial bribery work, and urges the management to establish a corresponding control environment within the Company. The board of supervisors supervises the Company to establish a sound and healthy internal control system; • The corporate management department is specifically responsible for receiving, investigating, reporting and putting forward suggestions for handling reports on fraud/corruption/commercial bribery, keeping written records and reporting to the Board in a timely manner, and filing specific reporting materials after reporting and investigation on a timely basis.
Reporting channels	• Employees at all levels and all parties in the society that have direct or indirect economic relations with the Company can report the actual or suspected fraud/corruption/commercial bribery cases of the Company and its personnel through telephone hotline, email, letters and other channels, including complaints and reports on violations of professional ethics of the Company and its personnel; • A complaint suggestion box is placed at a prominent position in the Company's lobby and can be put into anonymous or real name reporting letters.
Prevention and control	• Advocate a corporate culture of honesty and integrity, and create a corporate culture environment of anti-fraud, corruption and anti-commercial bribery; • Establish an appropriate procurement system that is particularly effective in the prevention of fraud/corruption/commercial bribery and is based on transparency, competition and objective criteria; • Suppliers who have business dealings with the Company are required to sign the *Anti-Fraud and Anti-Corruption Undertaking* with the Company when entering into contracts; If the Company's personnel who deal with the Company's economic activities violate the *Anti-Fraud and Anti-Corruption Undertaking*, the Company shall resolutely disqualify its suppliers and service providers, and those who constitute commercial bribery (bribery) crimes shall be subject to criminal liability by the judicial authority; • The management's continuous supervision of fraud/corruption/commercial bribery is integrated into daily sales, procurement, financial handling and other activities, including daily management and supervision activities.
Supervision and inspection	• The audit department considers the risk of fraud/corruption/commercial bribery when formulating and implementing the annual audit plan, reports its work plan and results to the Audit Committee, and is under the guidance and supervision of the Audit Committee; • The market audit department conducts monthly inspections on the sales channels, sales prices, marketing activities and training of the products of the sales centre.
Remedies and penalties	• Upon the occurrence of fraud/corruption/commercial bribery cases, the Company will adopt remedies to evaluate and improve the internal control of relevant affected departments in a timely manner; • For employees who are proven to have committed fraud/corruption/commercial bribery, the Company will take corresponding administrative disciplinary actions in accordance with relevant regulations. If the behavior violates the criminal law, the judicial authority or other relevant national departments will handle it according to law.

At the same time, the Company has stipulated the code of conduct for employees in the *Employee Handbook*, which prohibits the use of power to engage in private fraud, publicizes the Company's corporate values concept of honesty and integrity to employees, emphasizes the compliance with national laws and regulations and the Company's rules and regulations, advocates the importance of integrity and professional ethics, and continuously improves the self-discipline awareness and anti-corruption awareness of all employees.

During the Reporting Period, there were no concluded cases of corruption-related litigation brought against the Group, its subsidiaries or employees. The Company was not aware of any non-compliance with relevant laws and regulations relating to bribery, corruption, extortion, fraud and money laundering.

In the future, the Company will further improve the anti-corruption compliance system, strengthen routine supervision and special inspection, and provide strong support for the rapid, healthy and sustainable development of the Company.

(2) Organising Special Learning

In order to improve the anti-corruption awareness of all employees, and to perform duties with integrity and honesty, the Company has formulated the *Anti-corruption Training System*, which clarifies the Company's anti-corruption work principles, refines relevant work processes and other contents, review risk points in a targeted manner and organises all employees to learn, so as to play an educational and preventive role for employees in fighting against corruption.

VI. COMMUNITY INVESTMENT

(I) Combating COVID-19

Since the outbreak of COVID-19 in January 2020, the prevention and control of COVID-19 has been going on throughout the country. The Company demonstrated the responsibility of the pharmaceutical industry to serve the community development with practical actions. In January 2020, the Company donated Shuanghuanglian Oral Solutions and other drugs to support the Red Cross Society of Hubei Province, which was used to fight against the COVID-19 pandemic at the forefront. In March 2020, it organised employees to donate to the Red Cross Society of Xichuan County, Nanyang City, to raise funds for the prevention and control of the COVID-19 pandemic.

Photo 16 **Donation of anti-epidemic drugs to Wuhan Red Cross**

Photo 17 **Donations to regions severely affected by the COVID-19 pandemic**

(2) Poverty Alleviation through Public Welfare

In strict accordance with the requirements of external laws and regulations, the Company actively responds to the relevant targeted poverty alleviation policies, regulates the use of funds, capital review, implementation management and personnel collabouration. While striving to provide consumers with efficient and high-quality drugs, the Company keeps in mind the mission of public welfare, and regards supporting community development as one of the Company's unshakable missions. During the Reporting Period, the Company continued to promote public welfare and poverty alleviation, conducted natural disaster relief, carried out health poverty alleviation, industrial poverty alleviation and other projects, and fulfilled the responsibilities of corporate citizens. In November 2020, the Company was the "Cash Private Enterprise" of the National "Enterprises Assisting Villages" Targeted Poverty Alleviation Action (「萬企幫萬村」精准扶貧行動「現金民營企業」)" jointly awarded by the All-China Federation of Industry and Commerce and the State Council Leading Group Office of Poverty Alleviation and Development; in May 2021, the Company was awarded the "Advanced Group for Poverty Alleviation in Henan Province (河南省脱貧攻堅先進集體)" by the CPC Henan Provincial Committee and the People's Government of Henan Province. During the Reporting Period, the Group's community charity amounted to RMB3,000,000 and poverty alleviation donations amounted to RMB900,000; employee volunteer activities lasted for 105 hours.

Table 19 Community investment of Fusen Pharmaceutical for the past three years

Performance indicator	Unit	2019	2020	2021
Community charity amount	Yuan	350,000	1,063,096.91	**3,000,000**
Poverty alleviation donations	Yuan	3,000,000	3,000,000	**900,000**
Hours of employee volunteer activities	Persons	121	133	**105**

Supporting the flood relief in Zhengzhou

In July 2021, Zhengzhou City, Henan Province was hit by a rare and extremely heavy rainstorm, which caused serious disasters such as road surface collapse, subway irrigation, people's trapped, and infrastructure damage. As a local enterprise in Henan, the Company bears the responsibility for emergency support. On 23 July, the Company donated RMB3,000,000 in cash to the Henan Red Cross to fight the flood.

捐赠证书
DONATION CERTIFICATE
证书编号: 2021072303440

河南福森药业有限公司 捐赠人

您为河南防汛救灾成功捐赠 3000000元。感谢您帮助灾区人民战胜灾难，重建美好家园。

人道 博爱 奉献

Photo 18 **Donation to poor students from Tsinghua University**

Photo 19 **Visiting poor households**

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 2021.

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.

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.

RESULTS AND DIVIDENDS

The Board recommends the payment of a final dividend of RMB0.34 cents per ordinary share for the year ended 31 December 2021 (equivalent to HK$0.42 cents by adopting the prevailing exchange rate on 23 March 2022 set by the People's Bank of China) (2020: RMB0.46 cents) to the shareholders of the Company whose names appear on the register of Members of the Company on Tuesday, 14 June 2022.

The said final dividend will be paid in cash on 8 July 2022, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on Tuesday, 31 May 2022 (the "**2022 Annual General Meeting**"). Details of dividend for the year ended 31 December 2021 are set out in Note 12 to the financial statements of the Company contained in this report.

CLOSURE OF REGISTER OF MEMBERS

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

(a) for determining eligibility to attend and vote at the 2022 Annual General Meeting:

Latest time to lodge transfer documents for registration:	4:30 p.m., Tuesday, 24 May 2022
Closure of register of members:	Wednesday, 25 May 2022 to Tuesday, 31 May 2022 (both days inclusive)
Record date:	Tuesday, 31 May 2022

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

Latest time to lodge transfer documents for registration:	4:30 p.m., Wednesday, 8 June 2022
Closure of register of members:	Thursday, 9 June 2022 to Tuesday, 14 June 2022 (both days inclusive)
Record date:	Tuesday, 14 June 2022

In order to be eligible to attend and vote at the 2022 Annual General Meeting 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, Hong Kong, for registration not later than the respective latest dates and time set out above.

BUSINESS REVIEW

The review of the business of the Group during the year ended 31 December 2021 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 faced by 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.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for each of the five financial years ended 31 December 2021 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 2021 are set out in Note 14 to the consolidated financial statements of this report.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this report, the Group did not have other plans for material investments or capital assets as at 31 December 2021.

SHARE CAPITAL

Details of the Company's share capital is set out in Note 31 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.

The following table discloses movements in the Company's share options outstanding under the Share Option Scheme during the year ended 31 December 2021:

Name/category of participants	At 31 December 2019	Date of grant of share options	Exercised during the year	Granted during the year	Lapsed during the year	Cancelled during the year	At 31 December 2021	Vesting period of share options	Exercise period (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	16,000,000	19 July 2019	–	–	–	–	16,000,000 in total	All of the share options granted have been vested on 19 October 2019	19 October 2019– 13 June 2028	3.098	3.04

During the year ended 31 December 2021, no share options were granted under the Share Option Scheme.

As at the date of this financial 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 current 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 13 to the financial statements for further information of the Share Option Scheme and the value of share options granted.

RESERVES

Details of movements in the reserves of the Company and the Group are set out in Note 31 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

(1) Master Chinese Medicine Purchase Agreement

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:

On 14 June 2018, a master purchase agreement (the "**Master Chinese Medicine 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 (黃芩) as raw materials (the "**Relevant Materials**") for production of the Group's Shuanghuanglian-based cold medicine products. The term of the Master Chinese Medicine Purchase Agreement commenced on the Listing Date, 11 July 2018, and expired on 31 December 2020. As the Master Chinese Medicine Purchase Agreement has expired on 31 December 2020 and the transactions contemplated thereunder shall continue to be entered into on a recurring basis, on 4 December 2020, Henan Fusen and Fusen Chinese Medicine entered into the renewed master Chinese medicine purchase agreement (the "**Renewed Master Chinese Medicine Purchase Agreement**"), pursuant to which the parties agreed to continue the existing cooperation as disclosed above with each other for a term of three years commencing from 1 January 2021.

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.

Annual Caps

The annual caps for the three years ending 31 December 2023 are approximately RMB40.0 million, RMB44.0 million and RMB48.0 million respectively (the "**Renewed Annual Caps**"). For the year ended 31 December 2021, purchases by the Group from Fusen Chinese Medicine were within the Renewed Annual Caps and amounted to approximately RMB12.1 million.

Pricing policy

The purchase price of the medicinal herbs will be determined on an order-by-order basis with reference to the prevailing comparable market price after arm's length negotiation between Henan Fusen and Fusen Chinese Medicine from time to time. Henan Fusen will purchase medicinal herbs from Fusen Chinese Medicine on an as-needed basis.

When determining and approving the price and terms of the transactions under the Renewed Master Chinese Medicine Purchase Agreement, Henan Fusen will consider the following:

(i) the historical transaction amounts paid by the Group for products of similar type, quantity and quality;

(ii) comparing the purchase price with quotations from not less than three independent suppliers that provide similar products and ensuring that the purchase price shall be no less favourable than the price offered by the independent suppliers supplying products of similar type and quality and shall not be higher than the prevailing market price to ensure that the purchase price payable by Henan Fusen represents the prevailing market price and is on normal commercial terms; and

(iii) factors such as types of products required, the estimated delivery time, transportation costs, quality and quantity of products and any other factors affecting the products' price.

In the event that the price offered by Fusen Chinese Medicine is less favourable than those offered by the independent suppliers, Henan Fusen will not enter into transactions with Fusen Chinese Medicine.

The above pricing policy will be reviewed by the Directors (including the independent non-executive Directors) on a half-yearly basis.

Henan Fusen and Fusen Chinese Medicine will enter into individual agreements or orders to set out specific terms with respect to the purchase of medicinal herbs under the Master Chinese Medicine Purchase Agreement in accordance with the principal terms thereunder.

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 Chinese Medicine Purchase Agreement constitute continuing connected transactions for the Company under the Listing Rules after Listing. As the highest of the applicable percentage ratios of the Renewed Master Chinese Medicine Purchase Agreement calculated under Chapter 14A of the Listing Rules exceeded 5%, the transactions contemplated under the Renewed Master Chinese Medicine Purchase Agreement are subject to the reporting, announcement, annual review and independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. The Renewed Master Chinese Medicine Purchase Agreement (together with the Renewed Annual Caps) had been approved by the Directors (including the independent non-executive Directors) and the independent Shareholders at the extraordinary general meeting of the Company held on 20 January 2021.

(2) Master Packaging Materials Purchase Agreement

On 4 December 2020, Henan Fusen entered into the Master Packaging Materials Purchase Agreement with Henan Fusen Health Industry Company Limited* (河南福森大健康產業有限公司) ("**Fusen Health**"), pursuant to which Fusen Health agreed to supply, and Henan Fusen agreed to purchase, printed packaging materials for the packaging of cold medicine products of the Group on and subject to the terms and conditions of the Master Packaging Materials Purchase Agreement.

Annual Caps

The annual caps for the three years ending 31 December 2023 are approximately RMB15.0 million, RMB17.0 million and RMB19.0 million respectively. For the year ended 31 December 2021, purchases by the Group from Fusen Health were within the annual caps and amounted to approximately RMB8.8 million.

Pricing policy

The purchase price of the printed packaging materials under the Master Packaging Materials Purchase Agreement will be determined on an order-by-order basis with reference to the prevailing comparable market price after arm's length negotiation between Henan Fusen and Fusen Health from time to time. Henan Fusen will purchase printed packaging materials from Fusen Health on an as-needed basis.

When determining and approving the price and terms of the transactions under the Master Packaging Materials Purchase Agreement, Henan Fusen will consider the following:

(i) the market price of products of similar type, quantity and quality;

(ii) comparing the purchase price with quotations from not less than three independent suppliers that provide similar products and ensuring that the purchase price shall be no less favourable than the price offered by the independent suppliers supplying products of similar type and quality and shall not be higher than the prevailing market price to ensure that the purchase price payable by Henan Fusen represents the prevailing market price and is on normal commercial terms; and

(iii) factors such as types of products required, the estimated delivery time, transportation costs, quality and quantity of products and any other factors affecting the products' price.

In the event that the price offered by Fusen Health is less favourable than those offered by the independent suppliers, Henan Fusen will not enter into transactions with Fusen Health.

The above pricing policy will be reviewed by the Directors (including the independent non-executive Directors) on a half-yearly basis.

Henan Fusen and Fusen Health will enter into individual agreements or orders to set out specific terms with respect to the purchase of printed packaging materials under the Master Packaging Materials Purchase Agreement in accordance with the principal terms thereunder.

Implications under the Listing Rules

Fusen Health is wholly-owned by Fusen Shiye, a company owned as to approximately 35.08% by Mr. Cao, an executive Director, the Chairman and a controlling Shareholder. Fusen Health is a close associate of Mr. Cao and therefore a connected person of the Company under Chapter 14A of the Listing Rules. The Master Packaging Materials Purchase Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios of the Master Packaging Materials Purchase Agreement calculated under Chapter 14A of the Listing Rules with reference to the relevant proposed annual caps exceed 0.1% but are less than 5%, the transactions contemplated under the Master Packaging Materials Purchase Agreement will be exempt from the Independent Shareholders' approval requirement but will be subject to the reporting, announcement and annual review requirements pursuant to Chapter 14A of the Listing Rules.

(3) Master Construction Materials Purchase Agreement

Henan Fusen entered into the Master Construction Materials Purchase Agreement with Fusen Material on 4 December 2020, pursuant to which Fusen Material agreed to supply, and Henan Fusen agreed to purchase, construction materials for the renovation and upgrade of the production facilities of the Group located in Henan Province, the PRC on and subject to the terms and conditions of the Master Construction Materials Purchase Agreement.

Annual Caps

The annual caps for the two years ending 31 December 2022 are approximately RMB18.0 million and RMB10.0 million respectively. For the year ended 31 December 2021, purchases by the Group from Fusen Material were within the annual caps and amounted to approximately RMB17.1.

Pricing policy

The purchase price of the construction materials under the Master Construction Materials Purchase Agreement will be determined on an order-by-order basis with reference to the prevailing comparable market price after arm's length negotiation between Henan Fusen and Fusen Material from time to time. Henan Fusen will purchase construction materials from Fusen Materials on an as-needed basis.

When determining and approving the price and terms of the transactions under the Master Construction Materials Purchase Agreement, Henan Fusen will consider the following:

(i) the market price of the construction materials of similar type, quantity and quality;

(ii) comparing the purchase price with quotations from not less than three independent suppliers that provide similar construction materials and ensuring that the purchase price shall be no less favourable than the price offered by the independent suppliers supplying construction materials of similar type and quality and shall not be higher than the prevailing market price to ensure that the purchase price payable by Henan Fusen represents the prevailing market price and is on normal commercial terms; and

(iii) factors such as types of construction materials required, the estimated delivery time, transportation costs, quality and quantity of products and any other factors affecting the price of the construction materials.

In the event that the price offered by Fusen Material is less favourable than those offered by the independent suppliers, Henan Fusen will not enter into transactions with Fusen Material.

The above pricing policy will be reviewed by the Directors (including the independent non-executive Directors) on a half-yearly basis.

Henan Fusen and Fusen Material will enter into individual agreements or orders to set out specific terms with respect to the purchase of construction materials under the Master Construction Materials Purchase Agreement in accordance with the principal terms thereunder.

Implications under the Listing Rules

Fusen Material is wholly-owned by Fusen Shiye, a company owned as to approximately 35.08% by Mr. Cao, an executive Director, the Chairman and a controlling Shareholder. Fusen Material is a close associate of Mr. Cao and therefore a connected person of the Company under Chapter 14A of the Listing Rules. The Master Construction Materials Purchase Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios of the Master Construction Materials Purchase Agreement calculated under Chapter 14A of the Listing Rules with reference to the relevant proposed annual caps exceed 0.1% but are less than 5%, the transactions contemplated under the Master Construction Materials Purchase Agreement will be exempt from the Independent Shareholders' approval requirement but will be subject to the reporting, announcement and annual review requirements pursuant to Chapter 14A of the Listing Rules.

Confirmation from Directors in relation to Continuing Connected Transactions

The Independent non-executive Directors of the Company have reviewed transactions stated above and Rule 14A.55 of the Listing Rules 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 Company also confirms that it has followed the pricing policies and guidelines when determining the prices and terms of transactions above during the year ended 31 December 2021.

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 Hong Kong 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 the annual report 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.

Confirmation from the Company's auditor in relation to Continuing Connected Transactions

Based on the foregoing, in respect of the disclosed continuing connected transactions:

a. nothing has come to the attention of the Company's auditor that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

b. for transactions involving the provision of goods or services by the Group, nothing has come to the attention of the Company's auditor that causes them to believe that the disclosed continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group.

c. nothing has come to the attention of the Company's auditor that causes them to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

d. with respect to the aggregate amount of each of the continuing connected transactions set out in the attached list of continuing connected transactions, nothing has come to the attention of the Company's auditor that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

In addition, all of the continuing connected transactions of the Company disclosed above constitute related party transactions set out in Note 34 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 34 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 transactions as disclosed above, and the exempt connected transactions as disclosed in the Prospectus, during the year ended 31 December 2021, 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 31(d) to the consolidated financial statements of this report for details of the Company's distributable reserve as at 31 December 2021.

MAJOR CUSTOMERS, SUPPLIERS AND SUBCONTRACTORS

During the year ended 31 December 2021, the percentage of the Group's aggregate revenue attributable to the Group's largest customer was approximately 5.91%, while the percentage of the Group's total revenue attributable to the five largest customers in aggregate was approximately 22.52%.

During the year ended 31 December 2021, the percentage of the Group's largest supplier was approximately 17.01% of the total cost of sales for the year, while the percentage of the Group's five largest suppliers accounted for approximately 44.27% 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 2021 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 Zhiming (曹智銘) *(Chief Executive Officer)*
(appointed on 18 January 2013)

Independent non-executive Directors

Sze Wing Chun (施永進) (appointed on 14 June 2018)
Lee Kwok Tung Louis (李國棟) (appointed on 15 April 2019)
To Kit Wa (杜潔華) (appointed on 13 August 2020)

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. Hou Taisheng, Mr. Chi Yongsheng and Mr. Sze Wing Chun will retire by rotation pursuant to article 108 of the Company's memorandum and articles of association, 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.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its suppliers and customers in order to meet its immediate and long-term goals. During the year under review, there was no material or significant dispute between the Group and its suppliers and customers.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors 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 emoluments paid or payable to members of senior management were within the following bands:

	2021 Number of employees	2020 Number of employees
HKD Nil–HKD1,000,000	**1**	2

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 2021.

DIRECTORS' INTEREST IN SIGNIFICANT CONTRACTS

Save as the related party transactions disclosed in Note 34 to the consolidated financial statements of this report, no Directors had a material interest, either directly or indirectly, in any transaction, arrangement or 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 2021, 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 2021 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 2021, 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	493,319,000	64.07%
Mr. Cao Zhiming (Note 2)	Interest of a controlled corporation	132,959,000	17.27%
Mr. Hou Taisheng (Note 4)	Beneficiary of a trust	13,399,165	1.73%
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	1.74%

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 Zhiming 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 132,959,000 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 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 a trust established by a deed of settlement dated 14 June 2013. Mr. Cao Zhiming, who was acting on behalf of and under the authorisation and instructions of Mr. Cao Changcheng, is the settlor and Vistra Trust (Hong Kong) Limited is the trustee which is entrusted to hold the entire shareholding of Rayford Global Limited on trust for certain individual Shareholders as the beneficiaries ("**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 493,319,000 Shares, representing 64.07% 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 2021, none of the Directors nor chief executive of the Company has registered any 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 AND OTHER PERSON'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

So far as the Directors are aware, as at 31 December 2021, 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	23.28%
Rayford	Beneficial owner	180,180,000	23.28%
Vistra Trust (Hong Kong) Limited (Note 1)	Interest of a trustee	180,180,000	23.28%
Ms. Quan Xiufeng (Note 2)	Interest of spouse	493,319,000	64.07%
One Victory	Beneficial owner	132,959,000	17.27%
Ms. Zhou Peilin (Note 3)	Interest of spouse	132,959,000	17.27%

Notes:

1. 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 (Hong Kong) Limited holds 100% of the issued shares of Rayford in the capacity of a trustee, Vistra Trust (Hong Kong) 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 493,319,000 Shares in which Mr. Cao Changcheng is interested for the purpose of the SFO.

3. Ms. Zhou Peilin (formerly known as Ms. Zhou Rui) is Mr. Cao Zhiming's spouse and is deemed to be interested in the 132,959,000 Shares in which Mr. Cao Zhiming 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

During the year ended 31 December 2021, the Company repurchased a total of 5,612,000 Shares on the Stock Exchange at an aggregate consideration of (excluding expenses) approximately HK$8.97 million. Among those repurchased shares, 500,000 Shares, were cancelled during the year ended 31 December 2021 on 7 June 2021, and 5,112,000 Shares were not yet cancelled as at 31 December 2021. The issued share capital of the Company was reduced by the par value thereof. Details of the repurchases of Shares during the year ended 31 December 2021 were disclosed in note 31(c).

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2021.

COMPETING BUSINESS

During the year ended 31 December 2021, 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 2021, 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.

CORPORATE GOVERNANCE

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial conditions, results of operations, business and prospects would be affected by a number of risks and uncertainties including market risks, credit risks and liquidity risks. A summary of major risks and uncertainties of the Company's risk is set out as below and also in Note 32 to the consolidated financial statements of this report.

1. Research and Development Risk

The Group's future prospect is dependent upon the continuous development and successful commercialisation of new products or progress of milestones achievement of projects. As one of its expansion strategies, the Group intends to form strategic alliances with suitable partners or candidates that would offer the Group access to promising research projects. The success of biopharmaceutical product development and progress of milestones achievement are highly unpredictable. Products that appear to be promising at the early phases of R&D may fail to reach the market for numerous reasons, including the discovery of harmful side effects in pre-clinical tests and clinical trials, unsatisfactory results in clinical trials and the failure of obtaining the necessary regulatory approvals. Consequently, the corresponding R&D expenditure incurred would have to be expensed, which will have an adverse impact on the profitability of the Group.

2. Pharmaceutical Pricing Policies in the PRC

The drug pricing system in the PRC is controlled by the government, and it affects the pharmaceutical industry, drug price setting and regulation. Under the government intervention, price reduction across therapeutic categories was common during the last 20 years, which may exert a downward pressure against the price of pharmaceutical products and our market share, revenue and profitability may be adversely affected.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is devoted to promote and maintain the environmental and social sustainable development and has implemented a wide variety of green measures. The Group's operations has complied in all material respects with currently applicable PRC environmental protection laws and regulations during the year under review. Details of the Group's environmental, social and governance practices are set out in the section headed "Environmental, Social and Governance Report" of this report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied with the relevant laws and regulations that may cause a significant impact on the business and operations of the Group during the year under review.

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 2021.

COMPLIANCE ADVISER'S INTERESTS

As notified by the Company's compliance adviser, Dakin Capital Limited (the "**Compliance Adviser**"), as at 31 December 2021, except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 12 January 2018, neither the Compliance Adviser nor its directors, employees or close associates had any interests in relation to the Company, which is required to be notified to the Company pursuant to the Listing Rules.

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.

RELIEF OF TAXATION

The Company is not aware of any relief from taxation available to the Shareholders by reason of them holding the Shares.

EVENT AFTER THE REPORTING PERIOD

Details of event after the Reporting Period are set out in the section headed "Management Discussion and Analysis" in 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 2021 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, 23 March 2022

Independent Auditor's Report

KPMG

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 102 to 188, which comprise the consolidated statement of financial position as at 31 December 2021, 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 the year then ended 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 2021 and of its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2021 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 requirements 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 ("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(w).

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 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 and implementation of management's key internal controls in relation to revenue recognition; • inspecting 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 purchase orders, goods delivery notes, customers' acknowledge of receipt and delivery records, where applicable; • comparing the quantity of goods delivered during the year to the record of a third party pharmaceutical products tracking system; • inspecting goods delivery notes and/or delivery records, on a sample basis, to assess whether revenue transactions recorded just before and after the financial year end have been recognised in the appropriate financial period on the basis of the terms of sale as set out in the purchase orders; and • inspecting underlying documentation for adjustments relating to revenue raised during the year which met specific risk-based criteria.

KEY AUDIT MATTERS *(Continued)*

Impairment assessment of interest in an associate

Refer to Note 20 to the consolidated financial statements and the accounting policies in Note 2(e).

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2021, the carrying amount of the Group's interest in an associate amounted to RMB138,027,000. The associate is engaged in the production and sale of proprietary Chinese medicine in the PRC. Given the operating losses incurred by the associate, management considered that an indication of potential impairment of its interest in an associate existed as at 31 December 2021. In carrying out the impairment assessment, management engaged an external valuer to estimate the recoverable amount of the interest in an associate based on value in use and compared the carrying value of the interest in an associate with the recoverable amount. The value in use calculation is determined using a discounted cash flow model. The key assumptions of the discounted cash flow model included revenue growth rate, gross margin and the discount rate, which required significant management judgement. Based on the result of the impairment assessment, management concluded that no provision for impairment was necessary as at 31 December 2021. We identified impairment assessment of interest in an associate as a key audit matter because of its significance to the consolidated financial statements and because assessing the key impairment assumptions involves a significant degree of management judgement.	Our audit procedures to assess the potential impairment of interest in an associate included the following: • obtaining an understanding of and assessing the design and implementation of key internal controls relating to the assessment process of the recoverable amount of investment in an associate; • evaluating the appropriateness of the revenue growth rate and gross margin adopted in the preparation of the discounted cash flow forecasts by comparing with the financial budgets approved by management and those of comparable companies; • involving our internal valuation specialists in evaluating the appropriateness of the impairment assessment methodology adopted with reference to the prevailing accounting standards and the appropriateness of the discount rate used in the discounted cash flow forecast by comparing with those of comparable companies and external market data if available; • assessing the qualifications, experience and expertise of the external valuer engaged by management in assessing the impairment of interest in an associate and considering their objectivity; and • performing a sensitivity analysis of key assumptions, including revenue growth rate, gross margin and discount rate applied in the discounted cash flow forecasts and considering the resulting impact on the impairment charge for the year and whether there were any indicators of management bias in the selection of these key assumptions.

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 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 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 contents 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 skepticism 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.

- 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.

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

We communicate with the Audit Committee 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, actions taken to eliminate threats or safeguards applied.

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

23 March 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021 (Expressed in RMB'000 unless otherwise indicated)

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Revenue	4	**385,664**	486,854
Cost of sales		**(174,531)**	(220,787)
Gross profit		**211,133**	266,067
Other net (loss)/income	5	**(2,815)**	4,734
Selling and distribution expenses		**(90,946)**	(107,407)
General and administrative expenses		**(65,235)**	(78,874)
Impairment loss on goodwill and intangible assets	16 & 17	**–**	(22,637)
Profit from operations		**52,137**	61,883
Finance income		**2,558**	1,429
Finance costs		**(9,655)**	(9,159)
Net finance costs	6	**(7,097)**	(7,730)
Impairment on interest in a joint venture		**(19,280)**	–
Share of profit of a joint venture		**11,669**	24,252
Share of loss of an associate		**(13,638)**	–
Profit before taxation	7	**23,791**	78,405
Income tax	8	**(7,178)**	(15,737)
Profit for the year		**16,613**	62,668
Attributable to:			
Equity shareholders of the Company		**16,645**	70,131
Non-controlling interests		**(32)**	(7,463)
Profit for the year		**16,613**	62,668

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

For the year ended 31 December 2021 (Expressed in RMB'000 unless otherwise indicated)

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Other comprehensive income for the year (after tax)			
Item that may be reclassified subsequently to profit or loss:			
— Exchange differences on translation of financial statements of the Company and overseas subsidiaries		**(1,244)**	(2,072)
Other comprehensive income for the year		**(1,244)**	(2,072)
Total comprehensive income for the year		**15,369**	60,596
Attributable to:			
Equity shareholders of the Company		**15,401**	68,059
Non-controlling interests		**(32)**	(7,463)
Total comprehensive income for the year		**15,369**	60,596
Earnings per share	11		
Basic (RMB cents)		**2**	9
Diluted (RMB cents)		**2**	9

The notes on pages 109 to 188 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

As at 31 December 2021 (Expressed in RMB'000 unless otherwise indicated)

	Note	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Non-current assets			
Investment property	14	**17,605**	18,713
Other property, plant and equipment	14	**281,877**	238,002
Right-of-use assets	15	**224,157**	247,926
Intangible assets	16	**683**	883
Interest in a joint venture	19	**60,037**	67,648
Interest in an associate	20	**138,027**	–
Deferred tax assets	30(a)	**5,629**	5,709
Other assets		**2,099**	2,099
		730,114	580,980
Current assets			
Trading securities	21	**–**	15,489
Other financial assets	32(f)	**642**	–
Inventories	22	**121,845**	105,415
Trade receivables	23	**157,581**	183,930
Prepayments and other receivables	24	**148,091**	58,495
Cash and cash equivalents	25	**81,063**	297,038
		509,222	660,367
Current liabilities			
Trade and bills payables	26	**102,115**	108,585
Lease liabilities		**1,833**	–
Contract liabilities	27	**4,617**	13,581
Accruals and other payables	28	**219,069**	242,514
Bank and other loans	29	**160,915**	178,500
Current taxation		**–**	1,665
Other financial liabilities		**717**	2,761
		489,266	547,606
Net current assets		**19,956**	112,761
Total assets less current liabilities		**750,070**	693,741

Consolidated Statement of Financial Position *(Continued)*

As at 31 December 2021 (Expressed in RMB'000 unless otherwise indicated)

	Note	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Non-current liabilities			
Deferred income		**10,508**	8,359
Lease liabilities		**1,940**	–
Bank and other loans	29	**76,000**	20,000
Deferred tax liabilities	30(a)	**4,678**	7,133
		93,126	35,492
Net assets		**656,944**	658,249
Capital and reserves			
Share capital	31(b)	**6,479**	6,513
Reserves	31(c)	**651,690**	652,929
Total equity attributable to equity shareholders of the Company		**658,169**	659,442
Non-controlling interests		**(1,225)**	(1,193)
Total equity		**656,944**	658,249

Approved and authorised for issue by the board of directors on 23 March 2022 and signed on behalf of the board by:

Hou Taisheng
Director

Chi Yongsheng
Director

The notes on pages 109 to 188 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021 (Expressed in RMB'000 unless otherwise indicated)

		Attributable to equity shareholders of the Company											
	Note	Share capital RMB'000 (Note 31(b))	Share premium RMB'000 (Note 31(c)(i))	Treasury shares reserve RMB'000 (Note 31(c)(iii))	Capital redemption reserve RMB'000 (Note 31(c)(iii))	Statutory surplus reserves RMB'000 (Note 31(c)(ii))	Share option reserve RMB'000 (Note 31(c)(iv))	Other reserves RMB'000 (Note 31(c)(v))	Exchange reserve RMB'000 (Note 31(c)(vi))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity 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 year		–	–	–	–	–	–	–	–	70,131	70,131	(7,463)	62,668
Other comprehensive income		–	–	–	–	–	–	–	(2,072)	–	(2,072)	–	(2,072)
Total comprehensive income for the year		–	–	–	–	–	–	–	(2,072)	70,131	68,059	(7,463)	60,596
Acquisition of non-controlling interests in a subsidiary		–	–	–	–	–	–	1,495	–	–	1,495	(1,825)	(330)
Equity settled share-based transactions	13	–	–	–	–	–	17,632	–	–	–	17,632	–	17,632
Dividends declared	12	–	(6,396)	–	–	–	–	–	–	–	(6,396)	–	(6,396)
Purchase of own shares	31(c)(iii)	–	(94,544)	(249)	–	–	–	–	–	–	(94,793)	–	(94,793)
Cancellation of treasury shares	31(c)(iii)												
— Par value		(219)	–	219	–	–	–	–	–	–	–	–	–
— Transfer between reserves		–	(219)	–	219	–	–	–	–	–	–	–	–
Balance at 31 December 2020 and 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 year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**16,645**	**16,645**	**(32)**	**16,613**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,244)**	**–**	**(1,244)**	**–**	**(1,244)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,244)**	**16,645**	**15,401**	**(32)**	**15,369**
Dividends declared	12	**–**	**(7,949)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,949)**	**–**	**(7,949)**
Purchase of own shares	31(c)(iii)	**–**	**(7,343)**	**(47)**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,390)**	**–**	**(7,390)**
Cancellation of treasury shares	31(c)(iii)												
— Par value		**(34)**	**–**	**34**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
— Transfer between reserves		**–**	**(34)**	**–**	**34**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Changes in the share of other reserves of investment in an associate		**–**	**–**	**–**	**–**	**–**	**–**	**(1,335)**	**–**	**–**	**(1,335)**	**–**	**(1,335)**
Balance at 31 December 2021		**6,479**	**259,458**	**(43)**	**253**	**54,071**	**26,655**	**(12,466)**	**14,344**	**309,418**	**658,169**	**(1,225)**	**656,944**

Note: The capital redemption reserve comprises the par value of the cancelled shares of the Company transferred from share premium pursuant to Companies Law (2020 Revision) of the Cayman Islands.

The notes on pages 109 to 188 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2021 (Expressed in RMB'000 unless otherwise indicated)

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Operating activities			
Profit before taxation		**23,791**	78,405
Adjustments for:			
Depreciation and amortisation	7(b)	**23,785**	22,457
Realisation of deferred income		**(811)**	(615)
Net finance costs		**7,097**	5,632
Recognition of credit losses on trade and other receivables	7(b)	**905**	4,961
Net losses on disposal of other property, plant and equipment		**12,037**	181
Impairment on interest in a joint venture		**19,280**	–
Share of profit of a joint venture		**(11,669)**	(24,252)
Share of loss of an associate		**13,638**	–
Equity settled share-based transactions	13	**–**	17,632
Impairment loss on goodwill and intangible assets		**–**	22,637
Net realised and unrealised losses/(gains) of listed trading securities at fair value through profit or loss ("FVPL")		**1,730**	(2,966)
Net unrealised losses of other financial assets at FVPL		**13**	–
Net realised and unrealised (gains)/losses on derivative financial instruments		**(2,044)**	2,761
Changes in working capital			
Increase in inventories		**(16,430)**	(17,011)
Decrease/(Increase) in trade receivables		**25,973**	(12,314)
Increase in prepayments and other receivables		**(9,604)**	(2,565)
(Decrease)/increase in trade and bills payables		**(6,470)**	39,687
(Decrease)/increase in accruals and other payables		**(18,056)**	24,439
(Decrease)/increase in contract liabilities		**(8,964)**	9,785
Increase in deferred income		**2,960**	2,222
Cash generated from operations		**57,161**	171,076
Income tax paid		**(9,395)**	(17,869)
Net cash generated from operating activities		**47,766**	153,207

Consolidated Cash Flow Statement *(Continued)*

For the year ended 31 December 2021 (Expressed in RMB'000 unless otherwise indicated)

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(110,133)**	(58,645)
Payment to acquire interest of an associate		**(153,000)**	–
Proceeds from sales of property, plant and equipment		**1,627**	82
Purchases of other financial assets		**(654)**	–
Purchases of trading securities		**–**	(76,456)
Proceeds from sale of trading securities		**13,538**	63,933
Interest received		**645**	2,889
Advances to a joint venture	34	**(45,000)**	–
Repayments from a joint venture	34	**10,000**	–
Net cash used in investing activities		**(282,977)**	(68,197)
Financing activities			
Proceeds from bank and other loans	25(b)	**230,327**	210,873
Repayments of bank and other loans	25(b)	**(193,569)**	(220,000)
Loans from a related party	25(b)	**60,000**	–
Repayment of loans to a related party	25(b)	**(52,000)**	–
Borrowing costs paid	25(b)	**(8,138)**	(8,935)
Dividends paid	12	**(8,306)**	(3,145)
Acquisition of non-controlling interests in a subsidiary		**–**	(330)
Capital element of lease rentals paid	25(b)	**(343)**	–
Interest element of lease rentals paid	25(b)	**(54)**	–
Payment for purchase of own shares		**(7,390)**	(94,793)
Net cash generated from/(used in) financing activities		**20,527**	(116,330)
Net decrease in cash and cash equivalents		**(214,684)**	(31,320)
Cash and cash equivalents at the beginning of the year	25(a)	**297,038**	331,044
Effect of foreign exchange rate changes		**(1,291)**	(2,686)
Cash and cash equivalents at the end of the year	25(a)	**81,063**	297,038

The notes on pages 109 to 188 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 18.

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. 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 accounting period reflected in these financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the financial statements

Going concern assumption

The COVID-19 pandemic and the changes in the pharmaceutical policies in the People's Republic of China (the "PRC") brought along various challenges to the Group's operation in 2021. The Group's turnover, profit and operating cash flows for the year ended 31 December 2021 decreased by 21%, 73% and 67% respectively. As at 31 December 2021, net current assets of the Group was RMB19,956,000, representing a decrease over 80% as compared to RMB112,761,000 as at 31 December 2020. Considering the current economic conditions, management has comprehensively considered (i) the Group's cash flow forecast for the year ending 31 December 2022; (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, 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 consolidated financial statements of the Group for the year ended 31 December 2021 have been prepared on a going concern basis.

The functional currency of the Company is Hong Kong dollars (HKD). The Company's primary subsidiaries were established in the PRC and the subsidiaries considered Renminbi (RMB) as their functional currency. As the operations of the Group are conducted in 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 2021 comprise the Company and its subsidiaries and the Group's interest in a joint venture and an associate.

The measurement basis used in the preparation of the financial statements is the historical cost except for derivatives and other financial assets measured as FVPL as explained in the accounting policy (see Note 2(g) and (h)).

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 Group has applied the following amendments to IFRSs issued by the IASB to these financial statements for the current accounting period:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest Rate Benchmark Reform — phase 2*

- Amendments to IFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*

None of these amendments has had a material effect on how the Group's results and financial position for the current period have been prepared or presented in these consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. In particular, the Group does not take advantage of the practical expedient available under the amendments to IFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021* on lease modifications.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries and non-controlling interests *(Continued)*

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(r) or (s) 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(m)).

(e) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Associates and joint ventures *(Continued)*

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal Group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Notes 2(f) and (m)(ii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the expected credit loss ("ECL") model to such other long-term interests where applicable (see Note 2(m)(i)).

Unrealised profits and losses resulting from transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (see Note 2(m)), unless classified as held for sale (or included in a disposal Group that is classified as held for sale).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(m)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(h) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 32(f). These investments are subsequently accounted for as follows, depending on their classification.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Other investments in equity securities *(Continued)*

(i) Investments other than equity investments

Non-equity investments held by the group are classified into one of the following measurement categories:

— amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(z)(vi)).

— fair value through other comprehensive income (FVOCI) — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

— FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in Note 2(w)(v).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see Note 2(l)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses (see Note 2(m)). Depreciation is calculated to write off the cost less estimated residual value if applicable and is charged to profit or loss on a straight-line basis over the estimated useful lives of 20 years. Rental income from investment properties is accounted for as described in Note 2(w)(iv).

When an item of property, plant and equipment is transferred to investment property evidenced by end of owner-occupation or when an investment property commencement of owner-occupation and reclassified as property, plant and equipment, the carrying value is not remeasured and continues to be measured at cost less accumulated depreciation and impairment.

(j) Other property, plant and equipment

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

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 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
— Furniture, fixtures and other equipment	5 years

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Other property, plant and equipment *(Continued)*

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(m)). 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(y)).

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.

(k) 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(y)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(m)). 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(m)). 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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2(j) and 2(m)(ii)).

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Leased assets *(Continued)*

(i) As a lessee *(Continued)*

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

Land use rights, which are leasehold land located in Mainland China, have lease terms of 40 — 50 years.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(w)(iv).

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

The Group recognises a loss allowance for ECLs on financial assets measured at amortised cost (including cash and cash equivalents 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 expected shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate.

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

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

ECLs are measured on either of the following bases:

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

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

Loss allowances for trade receivables 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Measurement of ECLs (Continued)

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(w)(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.

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 past due event;

— 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 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) 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:

— investment property;

— other property, plant and equipment;

— right-of-use assets;

— intangible assets;

— goodwill; 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). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

— *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)*

(m) 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. An impairment loss in respect of goodwill is not reversed.

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 Notes 2(m)(i) and (ii)).

(n) 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)*

(n) 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, property, plant and equipment or intangible assets.

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. The Group takes advantage of practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining a contract as an expense if the amortisation of the asset is less than one year.

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(w).

(o) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2(w)). 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(p)).

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) 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.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs.

All receivables are subsequently stated at amortised cost, using the effective interest method and including an allowance for credit losses (see note 2(m)(i)).

(q) 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 ECL in accordance with the policy set out in Note 2(m)(i).

(r) 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(y)).

(s) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

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.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share option reserve within equity. The fair value is measured at grant date using the binomial tree model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is included in the amount recognised in share capital and share premium for the shares issued) or the option expires (when it is released directly to retained earnings).

(u) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Income tax *(Continued)*

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 the 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 amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Income tax *(Continued)*

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.

(v) Provisions and contingent liabilities

(i) 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.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Provisions and contingent liabilities *(Continued)*

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with Note 2(v)(i). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with Note 2(v)(i).

(w) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(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.

(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 initially recognised as deferred income and are recognised in profit or loss over the useful life of the asset as other income.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(v) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) 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.

(y) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) 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(z)(i).

g. A person identified in Note 2(z)(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(aa) 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) 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(m)(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.

(b) 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.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Shuanghuanglian Oral Solutions	**222,891**	295,241
Shuanghuanglian Injections	**34,758**	46,036
Others	**128,015**	145,577
	385,664	486,854

Revenue is recognised at a point in time.

During the year ended 31 December 2021, one of the Group's customers (2020: one customer) with whom transactions have exceeded 10% of the Group's revenue. Revenue from sales of pharmaceutical products to this customer amounted to RMB51,504,000 (2020: RMB61,398,000).

Details of concentrations of credit risk are set out in Note 32(a).

No remaining performance obligation under existing contracts has been disclosed as performance obligations under the Group's existing contracts that 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, 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 (LOSS)/INCOME

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Material and scrap sales income, net	**1,626**	1,458
Rental income	**574**	601
Government grants	**7,909**	2,993
Net realised and unrealised (losses)/gains of listed trading securities at FVPL	**(1,730)**	2,966
Net unrealised losses of other financial assets at FVPL	**(13)**	–
Net realised and unrealised gains/(losses) on derivative financial instruments	**2,044**	(2,761)
Net losses on disposal of long-term assets	**(12,037)**	(181)
Others	**(1,188)**	(342)
	(2,815)	4,734

6 NET FINANCE COSTS

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Interest income on bank deposit	**645**	1,429
Interest income on advances to a joint venture	**1,913**	–
Finance income	**2,558**	1,429
Interest on bank loans	**8,190**	9,434
Interest on lease liabilities	**54**	–
Foreign exchange losses/(gains), net	**1,411**	(275)
Finance costs	**9,655**	9,159
Net finance costs	**(7,097)**	(7,730)

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Salaries and wages	**54,082**	55,836
Contributions to defined contribution retirement schemes	**6,813**	724
Bonuses and other benefits	**14,705**	14,108
Share-based payment expenses	**–**	17,632
	75,600	88,300

Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated based on certain percentages of the average employee salary as agreed by the respective local municipal governments to the scheme to fund the retirement benefits of the employees. Contributions to the scheme vest immediately, there is no forfeited contribution that may be used by the Group to reduce the existing level of contribution. According to the Notice on Periodic Reduction and Exemption of Corporate Social Insurance (Ren She Bu Fa 2020 No. 11) issued by Ministry of Human Resources and Social Security of PRC, Ministry of Finance of PRC and State Taxation Administration of PRC, some subsidiaries of the Group enjoyed a reduction of social insurance payment ranged from 50% to 100% for the period from 1 February 2020 to 31 December 2020.

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

7 PROFIT BEFORE TAXATION *(Continued)*

(b) Other items

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Cost of inventories*	**175,373**	221,873
Research and development costs	**10,440**	11,493
Depreciation of investment property and other property, plant and equipment	**17,229**	16,203
Depreciation of right-of-use assets	**6,356**	6,054
Amortisation of intangible assets	**200**	200
Auditors' remuneration — audit services	**4,200**	3,800
Recognition of credit losses on trade and other receivables	**905**	4,961

* Cost of inventories includes RMB34,778,000 in 2021 (2020: RMB49,515,000), 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	
	2021	2020
	RMB'000	RMB'000
Current tax — PRC Enterprise Income Tax		
Provision for the year	**11,828**	17,766
Over-provision in respect of previous years	**(2,275)**	(1,730)
	9,553	16,036
Deferred tax		
Origination and reversal of temporary differences	**(2,375)**	(299)
	7,178	15,737

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

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

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

The Group has no assessable profit in Hong Kong for 2021 (2020: Nil) and is not subject to any Hong Kong Profits tax. Hong Kong Profits tax rate of 2021 is 16.5% (2020: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

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

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

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

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Profit before taxation	**23,791**	78,405
Tax calculated at statutory tax rates applicable to profits in the respective jurisdictions	**5,948**	19,601
Tax effect of		
Preferential income tax rates applicable to a PRC subsidiary	**(6,121)**	(11,240)
Non-deductible expenses	**221**	7,956
Share of profit of a joint venture	**(2,917)**	(6,063)
Share of loss of an associate	**3,409**	–
Unused tax losses not recognised	**9,108**	3,315
Over-provision in respect of previous years	**(2,275)**	(1,730)
PRC dividends withholding tax	**(195)**	3,898
Income tax	**7,178**	15,737

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 2021 total RMB'000
Chairman and executive director					
Mr. Cao Changcheng ("Mr. Cao")	–	47	–	–	47
Executive directors					
Mr. Hou Taisheng	–	63	–	7	70
Mr. Chi Yongsheng	–	63	–	7	70
Ms. Meng Qingfen	–	–	–	–	–
Mr. Cao Zhiming	–	1,618	373	30	2,021
Independent non-executive directors					
Mr. Lee Kwok Tung, Louis	149	–	–	–	149
Mr. Sze Wing Chun	149	–	–	–	149
Dr. To Kit Wa	149	–	–	–	149
	447	1,791	373	44	2,655

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 2020 total RMB'000
Chairman and executive director					
Mr. Cao	–	51	–	–	51
Executive directors					
Mr. Hou Taisheng	–	68	–	–	68
Mr. Chi Yongsheng	–	61	–	–	61
Ms. Meng Qingfen	–	69	–	–	69
Mr. Cao Zhiming	–	1,103	434	31	1,568
Independent non-executive directors					
Mr. Ho Ka Chun	91	–	–	–	91
Mr. Lee Kwok Tung, Louis	156	–	–	–	156
Mr. Sze Wing Chun	156	–	–	–	156
Dr. To Kit Wa	39	–	–	–	39
	442	1,352	434	31	2,259

Dr. To Kit Wa was appointed on 13 August 2020. Mr. Ho Ka Chun resigned on 20 July 2020.

During the year ended 31 December 2021, no emoluments was paid by the Group to the directors as an inducement to join or upon joining or as compensation for loss of office (2020: nil) and there was no arrangement under which a director waived or agreed to waive any emoluments (2020: nil).

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 five individuals with the highest emoluments, four (2020: one) of them is director whose emoluments are disclosed in Note 9. The aggregate of the emoluments in respect of the one (2020: four) individuals are as follows:

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Salaries and allowances	**495**	970
Bonuses and other benefits	**–**	100
Contributions to pension schemes	**–**	1
	495	1,071

The emoluments of the one (2020: four) individuals with the highest emoluments are within the following band:

	Year ended 31 December	
	2021	2020
	Number of individuals	Number of individuals
HKD Nil–HKD1,000,000	**1**	4

11 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 RMB16,645,000 (2020: RMB70,131,000) and the weighted average of 769,622,000 ordinary shares (2020: 786,075,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2021 **'000**	2020 '000
Issued ordinary shares at 1 January	**774,012**	800,000
Effect of repurchase of shares (Note 31(c)(iii))	**(4,390)**	(13,925)
Weighted average number of ordinary shares at 31 December	**769,622**	786,075

(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 RMB16,645,000 (2020: RMB70,131,000) and the weighted average number of issued ordinary shares of 770,313,000 (2020: 790,163,000 shares) after adjusting the effects of dilutive potential ordinary shares during the year, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2021 **'000**	2020 '000
Weighted average number of ordinary shares at 31 December	**769,622**	786,075
Effect of deemed issue of shares under the Company's share option scheme (Note 13)	**691**	4,088
Weighted average number of ordinary shares (diluted) at 31 December	**770,313**	790,163

16,000,000 share options were granted on 19 July 2019 under share option scheme of the Company adopted on 14 June 2018 (the "Share Option Scheme"). On 30 June 2020, the exercise period for the outstanding options was extended and not yet exercised by the grantees as at 31 December 2021.

12 DIVIDENDS

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

	2021 RMB'000	2020 RMB'000
Interim dividend declared of RMB0.57 cents (equivalent to HKD0.68 cents) per ordinary share (2020: RMB0.45 cents (equivalent to HKD0.51 cents) per ordinary share)	**4,389**	3,488
Final dividend proposed after the end of the reporting period of RMB0.34 cents (equivalent to HKD0.42 cents) per ordinary share (2020: RMB0.46 cents (equivalent to HKD0.54 cents) per ordinary share)	**2,618**	3,525

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.

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

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

During the year ended 31 December 2021, the dividends of RMB8,306,000 were paid to the equity shareholders of the Company (2020: RMB3,145,000).

13 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.

(Expressed in RMB'000 unless otherwise indicated)

13 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

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.

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 exercise period of the outstanding options granted under the Share Option Scheme was extended and the expiry date deferred from 19 July 2020, to 13 June 2028 ("Modification"). The Modification took effect on 30 June 2020 ("Modification Date"). Details for the terms and conditions of the grants are set out in Note 13(a).

For the year ended 31 December 2020, the Group recognised share-based payment expenses and other reserve of RMB17,632,000. The expenses recognised are the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the Modification Date.

(a) The terms and conditions of the grants are as follows:

			Number of shares		
Date of grant	Vesting date	Expiry date	granted	modified	unexercised but vested
19 July 2019	19 October 2019	19 July 2020	16,000,000	(16,000,000)	–
19 July 2019	19 October 2019	13 June 2028	–	16,000,000	16,000,000
			16,000,000	–	16,000,000

(b) The number and weighted average exercise prices of share options are as follows:

No share options mentioned above has been exercised, forfeited or expired during the year of 2021 (2020: Nil).

The options outstanding at 31 December 2021 had an exercise price of HKD3.098 (2020: HKD3.098) and a weighted average remaining contractual life of six years and six months (2020: seven years and six months).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model. The fair value of the original and the modified share options, both estimated as at the Modification Date, are summarised below.

(Expressed in RMB'000 unless otherwise indicated)

13 EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

(c) Fair value of share options and assumptions *(Continued)*

	Fair value of share options and assumptions	
	The modified share option measured at the Modification Date	The original share option measured at the Modification Date
Fair value at measurement date	HKD1.439	HKD0.233
Share price	HKD3.280	HKD3.280
Exercise price	HKD3.098	HKD3.098
Expected volatility (expressed as weighted average volatility used in the modelling under binomial tree model)	45.90%	41.81%
Option life (expressed as weighted average life used in the modelling under binomial tree model)	to 13 June 2028	to 19 July 2020
Expected dividends	0.20%	0.20%
Risk-free interest rate	0.47%	0.10%

The expected volatility is based on the average historic volatility of the comparable companies (calculated based on the remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on average historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

14 INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	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	Investment property RMB'000	Total RMB'000
Cost:								
At 1 January 2020	151,951	81,395	10,003	5,537	4,149	253,035	23,330	276,365
Additions	238	7,392	–	1	121,109	128,740	–	128,740
Transfers from construction in progress	756	–	–	–	(756)	–	–	–
Disposals	–	(2,959)	(1,312)	(7)	–	(4,278)	–	(4,278)
At 31 December 2020 and 1 January 2021	152,945	85,828	8,691	5,531	124,502	377,497	23,330	400,827
Additions	**3,514**	**4,113**	**443**	**125**	**86,664**	**94,859**	**–**	**94,859**
Transfers from construction in progress	**145,811**	**60,568**	**–**	**–**	**(206,379)**	**–**	**–**	**–**
Disposals (Note 14(a)(iii))	**(82,045)**	**(7,783)**	**(2,512)**	**(1,008)**	**–**	**(93,348)**	**–**	**(93,348)**
At 31 December 2021	**220,225**	**142,726**	**6,622**	**4,648**	**4,787**	**379,008**	**23,330**	**402,338**
Accumulated amortisation, depreciation and impairment:								
At 1 January 2020	(67,545)	(50,850)	(7,264)	(2,700)	–	(128,359)	(3,509)	(131,868)
Charge for the year	(6,872)	(7,345)	(641)	(237)	–	(15,095)	(1,108)	(16,203)
Written back on disposals	–	2,706	1,246	7	–	3,959	–	3,959
At 31 December 2020 and 1 January 2021	(74,417)	(55,489)	(6,659)	(2,930)	–	(139,495)	(4,617)	(144,112)
Charge for the year	(8,579)	(6,850)	(153)	(539)	–	(16,121)	(1,108)	(17,229)
Written back on disposals (Note 14(a)(iii))	50,103	6,007	1,478	897	–	58,485	–	58,485
At 31 December 2021	**(32,893)**	**(56,332)**	**(5,334)**	**(2,572)**	**–**	**(97,131)**	**(5,725)**	**(102,856)**
Net book value:								
At 31 December 2021	**187,332**	**86,394**	**1,288**	**2,076**	**4,787**	**281,877**	**17,605**	**299,482**
At 31 December 2020	78,528	30,339	2,032	2,601	124,502	238,002	18,713	256,715

14 INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) Reconciliation of carrying amount *(Continued)*

Notes:

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

(ii) Certain of the Group's bank borrowings were secured by the Group's property, plant and equipment, which had an aggregate carrying amount of nil and RMB44,190,000 as of 31 December 2021 and 2020, respectively.

(iii) In October 2020, the Group received a notification from the local government, requiring the Group to relocate part of its production facilities due to zone development requirements of the area. In December 2021, the Group entered into a compensation agreement with the local government, and pursuant to the agreement, the local government will compensate the Group in the amount of approximately RMB42,744,000 for the relocation. At 31 December 2021, the Group has substantially completed the relocation and the related property, plant and equipment with carrying amounts of RMB34,249,000 and the right of use asset with carrying amounts of RMB21,530,000 were disposed of. Compensations of RMB42,744,000 have not been received by the Group at 31 December 2021, a net loss of RMB13,035,000 on the relocation has been recognised in "other net loss — net losses on disposal of long-term assets" (Note 5) in the statement of profit or loss and other comprehensive income in 2021.

(b) Investment property

The Group leases out its self-owned properties in May 2019. The leases run for 3 years.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows:

	2021 **RMB'000**	2020 RMB'000
Within 1 year	**701**	1,682
After 1 year but within 2 years	**–**	701
	701	2,383

The fair value of investment property is determined based on the observable quoted price for the similar items in an active market, amounted RMB19,320,000 as at 31 December 2021 (2020: RMB20,620,000). The fair value measure falls into level 3 of the fair value hierarchy.

15 RIGHT-OF-USE ASSETS

	Land use right RMB'000	Leased properties RMB'000	Total RMB'000
Cost:			
At 1 January 2020, 31 December 2020 and 1 January 2021	267,549	–	267,549
Additions	–	4,116	4,116
Disposals (Note 14(a)(iii))	(31,201)	–	(31,201)
At 31 December 2021	**236,348**	**4,116**	**240,464**
Accumulated amortisation, depreciation and impairment:			
At 1 January 2020	(13,569)	–	(13,569)
Charge for the year	(6,054)	–	(6,054)
At 31 December 2020	(19,623)	–	(19,623)
Charge for the year	(5,823)	(533)	(6,356)
Written back on disposals (Note 14(a)(iii))	9,672	–	9,672
At 31 December 2021	**(15,774)**	**(533)**	**(16,307)**
Net book value:			
At 31 December 2021	**220,574**	**3,583**	**224,157**
At 31 December 2020	247,926	–	247,926

15 RIGHT-OF-USE ASSETS *(Continued)*

Notes:

(i) Right-of-use assets represent lump sum payments prepaid upfront to purchase land use rights from the government in the PRC for finite periods and there are no ongoing payments to be made under the terms of the land lease. As at 31 December 2021, the remaining periods of the land use rights ranged from 34 to 48 years (2020: ranged from 35 to 49 years).

During the year ended 31 December 2021, the Group entered into certain lease agreements for leasehold properties and therefore recognised the additions to right-of-use assets of RMB4,116,000(2020:Nil).

(ii) As at 31 December 2021 and 2020, certain of the Group's bank borrowings were secured by the Group's land use rights, which had an aggregate carrying amount of RMB87,144,000 and RMB114,630,000, respectively.

(iii) Details of total cash outflow for leases during the year and future cash outflows arising from leases are set out in Note 25(c) and Note 32(b), respectively.

(iv) For the year ended 31 December 2021, expense relating to short-term leases were amounted RMB200,000 (2020: RMB200,000), which are recorded in profit or loss as incurred. Interest expense on lease liabilities was disclosed in Note 6.

16 INTANGIBLE ASSETS

	Note	Technological know-how RMB'000	In-progress research and development projects RMB'000	Total RMB'000
Cost:				
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021		2,000	15,583	17,583
Accumulated amortisation:				
At 1 January 2020		(917)	–	(917)
Charge for the year		(200)	–	(200)
At 31 December 2020		(1,117)	–	(1,117)
Charge for the year		(200)	–	(200)
At 31 December 2021		**(1,317)**	**–**	**(1,317)**
Provision for impairment:				
At 1 January 2020		–	–	–
Impairment loss	(i)	–	(15,583)	(15,583)
At 31 December 2020 and 2021		–	(15,583)	(15,583)
Net book value:				
At 31 December 2021		**683**	**–**	**683**
At 31 December 2020		883	–	883

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

16 INTANGIBLE ASSETS *(Continued)*

Note:

(i) This item represents the in-progress development projects on pharmaceutical products conducted by Beijing Sanye Mingming Pharmaceutical Technology Company Limited ("Sanye Mingming"), a subsidiary acquired by the Group in 2019.

The Group originally anticipated that there would be broad market prospects and good profitability of these in-progress pharmaceutical products. With change of market and regulatory environment during the year ended 31 December 2020, these projects were resolved to be terminated by the Group, resulting in the benefit of Sanye Mingming will not be realised as previously expected. The directors of the Company are of the opinion, based on value-in-use calculations, that the carrying amount of this intangible asset of RMB15,583,000 and the goodwill associated with Sanye Mingming of RMB7,054,000 were both fully impaired at 31 December 2020.

17 GOODWILL

	RMB'000
Cost:	
At 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	7,054
Accumulated impairment loss:	
At 1 January 2020	–
Impairment loss	(7,054)
At 31 December 2020, 1 January 2021 and 31 December 2021	(7,054)
Carrying amount:	
At 31 December 2021	**–**
At 31 December 2020	–

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified as follows:

	2021 **RMB'000**	2020 RMB'000
Sanye Mingming	**–**	–

Details of impairment loss on goodwill are set out in Note 16(i).

(Expressed in RMB'000 unless otherwise indicated)

18 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 of incorporation/ establishment and operations and nature of legal entity	Particulars of issued and paid-up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Jinli International Limited	British Virgin Islands	1 ordinary share	100%	100%	–	Investing holding company
Wealth Depot (Hong Kong) Limited	Hong Kong	500,000 ordinary shares	100%	–	100%	Investing holding company
Cloud Dollar Investments Limited	Hong Kong	1 ordinary share	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 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 limited liability company	RMB76,759,800	100%	–	100%	Manufacturing and sale of pharmaceutical products
Henan Xichuan Fushan Medicinal Packaging Company Limited* 河南省淅川伏山藥用包材有限責任公司	The PRC limited liability company	RMB2,280,000	100%	–	100%	Manufacturing and sale of pharmaceutical package materials
Beijing Sanye Mingming Pharmaceutical Technology Company Limited* 北京三也明明醫藥科技有限公司	The PRC limited liability company	RMB3,000,000	50%**	–	50%	Research and development of pharmaceutical products
Shanghai Shengkuang Business Management & Consulting Co., Ltd.* 上海盛匡企業管理諮詢有限公司	The PRC limited liability company	RMB1,000,000	100%	–	100%	Business Management & Consulting
Fusen (Shenzhen) Biomedical R & D Co., Ltd.* 福森(深圳)生物醫藥研發有限公司	The PRC limited liability company	RMB15,000,000	100%	–	100%	Research and development of pharmaceutical products
Jiangxi Ruiyuan Pharmaceutical Company Limited* 江西瑞源藥業有限公司	The PRC limited liability company	RMB2,000,000	100%	–	100%	Sale of pharmaceutical products
Jiaheng (Zhuhai Hengqin) Pharmaceutical Technology Company Limited* 嘉亨(珠海橫琴)醫藥科技有限公司	The PRC limited liability company	RMB10,000,000	100%	–	100%	Research and development of pharmaceutical products

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

** The Group is eligible to appoint majority of directors of the Board and direct the relevant activities of Sanye Mingming, and the Group obtained control over Sanye Mingming.

19 INTEREST IN A JOINT VENTURE

Jiangxi Yongfeng Kangde Pharmaceutical Company Limited ("Jiangxi Kangde"), the only joint venture in which the Group participates, is incorporated in the PRC with limited liability and unlisted whose quoted market price is not available. Jiangxi Kangde is principally engaged in importing and sale of a medicine named Kefadim (chemical name: Ceftazidime for injection) in the PRC market.

Details of the Group's interest in the joint venture are as follows:

Name of the joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Jiangxi Yongfeng Kangde Pharmaceutical Company Limited* 江西永豐康德醫藥有限公司	Incorporated	The PRC	Registered capital RMB14,265,335	35.8%	–	35.8%	Sale of pharmaceutical products

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

In June 2020, as a result of capital injection from Hubei Zhongbang Hengtai Pharmaceutical Technology Company Limited* (湖北眾邦恒泰醫藥科技有限公司), the Group's equity interests in Jiangxi Kangde was diluted from 51% to 35.8%.

Summarised financial information of Jiangxi Kangde, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

Gross amounts of Jiangxi Kangde

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Current assets	**239,482**	198,470
Non-current assets	**98,533**	77,779
Current liabilities	**(127,213)**	(95,807)
Non-current liabilities	**(15,499)**	(17,734)
Equity	**195,303**	162,708
Included in the above assets and liabilities		
Cash and cash equivalents	**24,456**	81,801

19 INTEREST IN A JOINT VENTURE *(Continued)*

Gross amounts of Jiangxi Kangde *(Continued)*

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000
Revenue	**509,443**	504,209
Profit from continuing operations	**32,670**	53,693
Total comprehensive income	**32,595**	53,693
Included in the above results:		
Depreciation and amortisation	**8,446**	8,428
Interest income	**(75)**	(57)
Income tax	**11,980**	18,596

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Gross amounts of Jiangxi Kangde's net assets	**195,303**	162,708
Group's effective interest	**35.8%**	35.8%
Group's share of Jiangxi Kangde's net assets	**69,918**	58,249
Goodwill arisen on the investment	**9,399**	9,399
Impact of impairment on intangible assets and goodwill	**(19,280)**	–
Carrying amount in the Group's interest	**60,037**	67,648

(Expressed in RMB'000 unless otherwise indicated)

20 INTEREST IN AN ASSOCIATE

Weihai Rensheng Pharmaceutical Group Company Limited ("Weihai Rensheng"), the only associate in which the Group participates, is incorporated in the PRC with limited liability and unlisted whose quoted market price is not available. Weihai Rensheng is principally engaged in manufacturing and sale of traditional herb preparation products in the PRC market.

				Proportion of ownership interest			
Name of the associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Weihai Rensheng Pharmaceutical Group Company Limited* 威海人生藥業集團股份有限公司	Incorporated	The PRC	Registered capital RMB76,022,155	34.0%	–	34.0%	Manufacturing and sale of traditional herb preparation products

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

On 31 December 2020, 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. The Group accounted for such investment using equity method.

20 INTEREST IN AN ASSOCIATE *(Continued)*

Summarised financial information of Weihai Rensheng, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

Gross amounts of Weihai Rensheng

	As at 31 December 2021 RMB'000
Current assets	133,138
Non-current assets	581,287
Current liabilities	(265,892)
Non-current liabilities	(270,268)
Equity	178,265
Equity attributable to the Company	112,877

	For the period from 31 May 2021 to 31 December 2021 RMB'000
Revenue	139,203
Loss from continuing operations	(40,109)
Total comprehensive income	(40,109)

	As at 31 December 2021 RMB'000
Gross amounts of Weihai Rensheng's net assets	112,877
Group's effective interest	34.0%
Group's share of Weihai Rensheng's net assets	38,378
Goodwill arisen on the investment	99,649
Carrying amount in the consolidated financial statement	138,027

21 TRADING SECURITIES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Equity securities at FVPL (Note 32(f))		
— listed in Hong Kong	**–**	15,489

22 INVENTORIES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Raw materials	**41,108**	37,811
Work in progress	**15,687**	9,430
Finished goods	**65,050**	58,174
	121,845	105,415

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

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Carrying amount of inventories sold		
— charged to cost of sales	**174,531**	220,787
— charged to other net income	**842**	1,086
Cost of inventories	**175,373**	221,873

23 TRADE RECEIVABLES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Bills receivable*	**101,145**	133,529
Trade debtors	**60,369**	53,958
Less: allowance for credit loss	**(3,933)**	(3,557)
	56,436	50,401
	157,581	183,930

* At 31 December 2021, the Group's bills receivable of RMB41,550,000 and RMB38,460,000 (2020: RMB46,346,000 and RMB7,304,000) were endorsed to suppliers and discounted to banks, respectively. As the Group has not transferred the substantial risks and rewards relating to these bills receivable, the Group's management determined not to derecognise the carrying amounts of these bills receivable and the associated trade payables settled.

Ageing analysis

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

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

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Current to 3 months	**42,815**	42,580
3 to 6 months	**5,522**	4,589
6 to 12 months	**7,457**	2,813
Over 12 months	**642**	419
	56,436	50,401

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 32(a).

24 PREPAYMENTS AND OTHER RECEIVABLES

		As at 31 December	
		2021	2020
	Note	**RMB'000**	RMB'000
Receivables in connection with compensation for relocation of production facilities from local government	14(a)(iii)	**42,744**	–
Dividends receivable		**28,707**	28,707
Advances to a joint venture and accrued interests	34	**36,913**	–
Prepayments to related parties	34	**2,885**	736
Prepayments for raw material and service charges		**7,128**	2,088
Income tax recoverable		**437**	–
Others		**29,277**	26,964
		148,091	58,495

25 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise of:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Bank deposits	**81,063**	297,038

25 CASH AND CASH EQUIVALENTS *(Continued)*

(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 29)	Amounts due to related parties RMB'000 (Note 28)	Interests payable RMB'000 (Note 28)	Lease liabilities RMB'000	Total RMB'000
At 1 January 2020	210,000	1,606	1,286	–	212,892
Changes from financing cash flows:					
Proceeds from bank loans	210,873	–	–	–	210,873
Repayment of bank loans	(220,000)	–	–	–	(220,000)
Borrowing costs paid	–	–	(8,935)	–	(8,935)
Total changes from financing cash flows	(9,127)	–	(8,935)	–	(18,062)
Other change					
Interest on bank loans (Note 6)	–	–	9,434	–	9,434
Foreign exchange gain	(2,373)	–	–	–	(2,373)
Total other change	(2,373)	–	9,434	–	7,061
At 31 December 2020 and 1 January 2021	198,500	1,606	1,785	–	201,891

25 CASH AND CASH EQUIVALENTS (Continued)

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

	Bank and other loans RMB'000 (Note 29)	Amounts due to related parties RMB'000 (Note 28)	Interests payable RMB'000 (Note 28)	Lease liabilities RMB'000	Total RMB'000
Changes from financing cash flows:					
Proceeds from bank and other loans	230,327	60,000	–	–	290,327
Repayment of bank and other loans	(193,569)	(52,000)	–	–	(245,569)
Borrowing costs paid	–	–	(8,138)	–	(8,138)
Capital element of lease rentals paid	–	–	–	(343)	(343)
Interest element of lease rentals paid	–	–	–	(54)	(54)
Total changes from financing cash flows	36,758	8,000	(8,138)	(397)	36,223
Other changes					
Interest on bank loans (Note 6)	–	–	8,190	–	8,190
Interest on lease liabilities	–	–	–	54	54
Increase in lease liabilities from entering into new leases during the year	–	–	–	4,116	4,116
Foreign exchange loss, net	1,657	–	–	–	1,657
Total other changes	1,657	–	8,190	4,170	14,017
At 31 December 2021	236,915	9,606	1,837	3,773	252,131

25 CASH AND CASH EQUIVALENTS *(Continued)*

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2021 RMB'000	2020 RMB'000
Within operating cash flows	**200**	200
Within financing cash flows	**397**	–
	597	200

26 TRADE AND BILLS PAYABLES

Trade and bills payables are analysed as follows:

		As at 31 December	
	Note	**2021 RMB'000**	2020 RMB'000
Trade payables			
Third parties		**98,061**	104,688
Amounts due to related parties	34	**4,054**	3,897
		102,115	108,585

26 TRADE AND BILLS PAYABLES *(Continued)*

Ageing analysis

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

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Current to 3 months	**42,570**	77,174
3 to 6 months	**24,023**	18,533
6 to 12 months	**16,022**	4,454
Over 12 months	**19,500**	8,424
	102,115	108,585

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

For the information of trade payables settled by endorsement of bills receivable, please refer to Note 23.

27 CONTRACT LIABILITIES

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Receipts in advance from customers	**4,617**	13,581

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 the delivery of products.

The amount of RMB11,312,000 that was included in the contract liabilities at the beginning of the year has been recognised as revenue in 2021 (2020: RMB2,237,000). All the balances of the contract liabilities at 31 December 2021 are expected to be recognised as revenue within one year.

28 ACCRUALS AND OTHER PAYABLES

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
Rebate payables		**24,155**	31,914
Accrued charges		**28,773**	33,449
Advances from related parties	25(b) & 34	**9,606**	1,606
Other payables to related parties	34	**7,728**	400
Dividends payable		**8,163**	9,029
Other tax payables		**28,834**	33,897
Salary, bonus and welfare payable		**60,157**	63,688
Payables to contractors and equipment suppliers		**13,724**	28,574
Deposits from sale staff		**4,403**	4,697
Interests payable	25(b)	**1,837**	1,785
Housing fund collected from staff		**4,296**	4,296
Fund from local finance bureau*		**5,887**	5,887
Others		**21,506**	23,292
		219,069	242,514

* The item is interest-free and repayable on demand.

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

29 BANK AND OTHER LOANS

	Note	2021 Effective interest rate	2021 RMB'000	2020 Effective interest rate	2020 RMB'000
Current					
Borrowings from banks					
— secured	(i)	**5.23%**	**4,000**	4.79%	95,000
— unsecured					
USD denominated	(ii)	**4.70%**	**48,455**	4.50%	46,196
RMB denominated		**4.79–5.22%**	**50,000**	4.79%	30,000
Add: current portion of non-current borrowings		**6.98%**	**20,000**	–	–
Other borrowings		**6.20%**	**38,460**	6.20%	7,304
Total			**160,915**		178,500
Non-current					
Borrowings from banks					
— secured	(i)	**5.23%**	**76,000**	6.98%	20,000
Total			**76,000**		20,000

Notes:

(i) As at 31 December 2021, the borrowings were guaranteed by the Henan Fusen Shiye Group Limited (河南福森實業集團有限公司) and Henan Fusen New Energy Technology Limited (河南福森新能源科技有限公司).

(ii) Unless otherwise indicated, the bank and other loans are denominated in RMB.

The borrowings were repayable as follows:

	As at 31 December 2021 RMB'000	2020 RMB'000
Within 1 year or on demand	**160,915**	178,500
After 1 year but within 5 years	**76,000**	20,000
	236,915	198,500

30 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) 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 RMB'000	Allowance of credit loss RMB'000	Depreciation and amortisation RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020	1,011	742	1,940	1,715	5,408
Credited/(charged) to profit or loss	240	(202)	(215)	478	301
At 31 December 2020 and 1 January 2021	1,251	540	1,725	2,193	5,709
Credited/(charged) to profit or loss	**322**	**56**	**(215)**	**(243)**	**(80)**
At 31 December 2021	**1,573**	**596**	**1,510**	**1,950**	**5,629**

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

(a) 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:

	PRC dividend withholding tax RMB'000	Fair value adjustment in respect of net assets acquired in business combination RMB'000	Total RMB'000
Deferred tax arising from:			
At 1 January 2020	3,235	3,896	7,131
Charged/(credited) to profit or loss	3,898	(3,896)	2
At 31 December 2020 and 1 January 2021	7,133	–	7,133
Credited to profit or loss	(2,455)	–	(2,455)
At 31 December 2021	**4,678**	**–**	**4,678**

The above recognised deferred tax assets and liabilities cannot be offset.

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

(b) Deferred tax assets not recognised

As at 31 December 2021, the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB10,155,000 (2020: RMB9,763,000) as it is not probable that future taxable profits against which the losses can be utilised will be available.

Tax losses of RMB8,611,000 and RMB390,000 will expire in 2025 and 2026, respectively. The remaining unused tax losses do not expire under current tax legislation.

(c) 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 declared to foreign investors from its PRC subsidiaries.

As at 31 December 2021, temporary differences relating to the reserves of the Company's PRC subsidiaries amounted RMB361,642,000 (2020: RMB352,158,000), comprised retained earnings of RMB307,446,000 (2020: RMB297,962,000) and statutory surplus reserve of RMB54,196,000 (2020: RMB54,196,000).

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 2021 (2020: 85%) 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 relating to the profits resolved not to be distributed in the foreseeable future as mentioned above.

31 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:

	Note	Share capital RMB'000	Share premium RMB'000	Treasury shares reserve RMB'000	Capital redemption reserve RMB'000	Share option reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2020		6,732	375,943	–	–	9,023	23,073	(14,783)	399,988
Loss for the year		–	–	–	–	–	–	(11,009)	(11,009)
Other comprehensive income		–	–	–	–	–	(23,106)	–	(23,106)
Equity settled share-based transactions	13	–	–	–	–	17,632	–	–	17,632
Dividends declared	12	–	(6,396)	–	–	–	–	–	(6,396)
Purchase of own shares		–	(94,544)	(249)	–	–	–	–	(94,793)
Cancellation of treasury shares									
— Par value		(219)	–	219	–	–	–	–	–
— Transfer between reserves		–	(219)	–	219	–	–	–	–
Balance at 31 December 2020 and 1 January 2021		**6,513**	**274,784**	**(30)**	**219**	**26,655**	**(33)**	**(25,792)**	**282,316**
Loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**(10,765)**	**(10,765)**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**(6,751)**	**–**	**(6,751)**
Dividends declared	12	**–**	**(7,949)**	**–**	**–**	**–**	**–**	**–**	**(7,949)**
Purchase of own shares		**–**	**(7,343)**	**(47)**	**–**	**–**	**–**	**–**	**(7,390)**
Cancellation of treasury shares									
— Par value		**(34)**	**–**	**34**	**–**	**–**	**–**	**–**	**–**
— Transfer between reserves		**–**	**(34)**	**–**	**34**	**–**	**–**	**–**	**–**
Balance at 31 December 2021		**6,479**	**259,458**	**(43)**	**253**	**26,655**	**(6,784)**	**(36,557)**	**249,461**

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) 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 31 December	**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 31(c)(iii))	**(4,078,000)**	**(34)**	(25,988,000)	(219)
At 31 December	**769,934,000**	**6,479**	774,012,000	6,513

The holders of ordinary shares as at 31 December 2021 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.

(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.

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Reserves *(Continued)*

(iii) Treasury shares reserve and capital redemption reserve

When shares recognised as equity 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
	29,566,000			105,133	(25,988,000)	
January 2021	**500,000**	**4.75**	**4.75**	**2,375**	**–**	**4,078,000**
June 2021	**–**	**N/A**	**N/A**	**–**	**(4,078,000)**	**–**
September 2021	**177,000**	**3.33**	**3.32**	**589**	**–**	**177,000**
December 2021	**4,935,000**	**1.45**	**1.01**	**6,004**	**–**	**5,112,000**
	5,612,000			**8,968**	**(4,078,000)**	

The total amount paid on the repurchased shares was paid wholly out of share premium. As at 31 December 2021, the Group held 5,112,000 of the Company's shares (2020: 3,578,000).

Treasury shares are recognised as deduction from equity in the Group's consolidated statement of financial position.

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Reserves *(Continued)*

(iv) Share option reserve

The share option reserve represents the cumulative value of the equity settled share-based transactions granted to employees recognised in accordance with the accounting policy adopted for share-based payments in Note 2(t)(ii).

(v) Other reserves

Other reserves as at the end of the reporting period mainly included contributions by the shareholders 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.

(vi) 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(x).

(d) Distributability of reserves

At 31 December 2021, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as determined under the Companies Law of the Cayman Islands, was RMB242,772,000 (2020: RMB275,614,000).

(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.

31 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Capital management *(Continued)*

The Group's adjusted net debt-to-capital ratio at 31 December 2021 and 2020 was as follows:

		As at 31 December	
		2021	2020
	Note	**RMB'000**	RMB'000
Current liabilities:			
Bank and other loans	29	**160,915**	178,500
Non-current liabilities:			
Bank and other loans	29	**76,000**	20,000
Total debt		**236,915**	198,500
Less: Cash and cash equivalents		**81,063**	297,038
Adjusted net debt		**155,852**	(98,538)
Total equity		**656,944**	658,249
Adjusted net debt-to-capital ratio		**23.72%**	N/A

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

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT

Exposure to credit, liquidity, interest rate, currency and equity price 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 having 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% (2020: 0%) and 5.1% (2020: 4.6%) 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.

32 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:

	2021		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current	**0.8%**	**35,242**	**299**
1–3 months past due	**3.3%**	**17,833**	**583**
4–6 months past due	**15%**	**3,278**	**484**
7–12 months past due	**33%**	**1,830**	**610**
More than 1 year past due	**90%**	**2,186**	**1,957**
		60,369	**3,933**

	2020		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current	0.8%	39,182	300
1–3 months past due	2.9%	9,450	276
4–6 months past due	13%	1,662	208
7–12 months past due	31%	863	265
More than 1 year past due	90%	2,801	2,508
		53,958	3,557

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.

32 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:

	2021 RMB'000	2020 RMB'000
Balance at 1 January	**3,557**	5,009
Accrual/(reversal) during the year	**376**	(1,452)
Balance at 31 December	**3,933**	3,557

(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 2021 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	166,996	79,789	–	–	246,785	236,915
Trade and bills payables	102,115	–	–	–	102,115	102,115
Accruals and other payables	219,069	–	–	–	219,069	219,069
Lease liabilities	1,962	1,859	128	–	3,949	3,773
Other financial liabilities	717	–	–	–	717	717
Total	490,859	81,648	128	–	572,635	562,589

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

(b) Liquidity risk *(Continued)*

	As at 31 December 2020 contractual undiscounted cash outflow					Carrying amounts in the consolidated statement of financial position
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans	182,312	20,854	–	–	203,166	198,500
Trade and bills payables	108,585	–	–	–	108,585	108,585
Accruals and other payables	242,514	–	–	–	242,514	242,514
Other financial liabilities	2,761	–	–	–	2,761	2,761
Total	536,172	20,854	–	–	557,026	552,360

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank and other loans. Interest-bearing liabilities issued at variable rates and borrowings 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.

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

(c) Interest rate risk *(Continued)*

(i) Interest rate profile

The following table details the interest rate profile of the Group's net interest-bearing liabilities at the end of the year:

	2021		2020	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Fixed rate interest-bearing borrowings:				
Bank loans	4.70–6.98%	98,455	4.50–4.79%	76,196
Other borrowings	6.20%	38,460	6.20%	7,304
Variable rate interest-bearing liabilities:				
Bank loans	5.22–5.23%	100,000	4.79%	95,000
Lease liabilities	4.75%	3,773	–	–
Total		240,688		178,500

(ii) Sensitivity analysis

Increases in interest rates will increase the cost of interest-bearing liabilities, and therefore could have an adverse effect on the Group's financial position. For the year ended 31 December 2021 and 2020, if interest rates on the short-term fixed rate borrowings had increased/decreased 50 basis points while all other variables are held constant, the effect on profit after taxation is approximately RMB441,000 and RMB404,000 respectively.

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

(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 relates. The currencies giving rise to this risk is primarily USD.

The following table details the Group's major exposure as at 31 December 2021 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 2021		As at 31 December 2020	
	HKD RMB'000	**USD RMB'000**	HKD RMB'000	USD RMB'000
Cash and cash equivalents	**29,168**	**17**	20,253	21,648
Bank loans	**–**	**(48,455)**	–	(46,196)
Gross exposure arising from recognised assets and liabilities	**29,168**	**(48,438)**	20,253	(24,548)
Notional amounts of a cross-currency swap contract entered	**–**	**(717)**	–	(2,761)
Net exposure	**29,168**	**(49,155)**	20,253	(27,309)

The Group has entered into certain cross-currency swap contract to mitigate the effect of its foreign currency exposure arising from the bank loans denominated in USD, in which the Group agrees to exchange, at specific intervals, USD principal and interest of the bank loans into Renminbi.

As at 31 December 2021, 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 taxation and retained profits by approximately RMB(1,458,000) and RMB2,458,000, respectively (2020: RMB(1,013,000) and RMB1,365,000).

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

(e) Equity price risk

The Group is exposed to equity price risk through its investments in equity securities. The Group's equity price risk in equity securities is mainly concentrated on equity instruments issued by companies operating in pharmaceutical industry sector listed on the Stock Exchange of Hong Kong Limited. The directors of the Company closely monitor the share price movements of those securities relating to the investments in order to minimize the Group's exposure to the price risk. As at 31 December 2021, the Company sold all of the equity securities, therefore the Group do not exposed to the equity price risk.

(f) Fair values measurement

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

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

(f) Fair values measurement *(Continued)*

Financial assets and liabilities measured at fair value *(Continued)*

	Fair value at 31 December 2021 RMB'000	Fair value measurements as at 31 December 2021 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Other financial assets	**642**	**642**	**–**	**–**
Capped cross currency swap	**(717)**	**–**	**(717)**	**–**

	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)	–

During the years ended 31 December 2020 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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 year 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 31 December 2021 and 2020.

33 COMMITMENTS

Capital commitments outstanding at 31 December 2021 and 2020 not provided for in the financial statements were as follows:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Contracted for	**1,819**	103,617

34 MATERIAL RELATED PARTY TRANSACTIONS

In 2021 and 2020, transactions with the following parties are considered as related party transactions:

Name of party	Relationship with the Group
Mr. Cao	Controlling shareholder of the Company
Ms. Quan Xiufeng	Mr. Cao's spouse
Mr. Cao Zhiming	Executive director and Mr. Cao's son
Henan Fusen Shiye Group Limited 河南福森實業集團有限公司	Controlled by Mr. Cao
Nanyang Fusen Magnesium Powder Limited 南陽福森鎂粉有限公司	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
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 Fusen Great Health Industry Limited 河南福森大健康產業有限公司	Controlled by Mr. Cao
Henan Xichuan Rural Commercial Bank Company Limited 河南淅川農村商業銀行股份有限公司	Significant influence exercised 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 Zhiming
Jiangxi Yongfeng Kangde Pharmaceutical Company Limited 江西永豐康德醫藥有限公司	Joint venture of the Group

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

34 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with related parties

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:

		As at 31 December	
		2021	2020
	Note	**RMB'000**	RMB'000
Purchase of goods	(i)	**40,100**	37,006
Receiving ancillary services	(ii)	**290**	290
Advances to a joint venture	(iii)	**45,000**	–
Repayment from a joint venture	(iii)	**10,000**	–
Interest income from advances to a joint venture	(iii)	**1,913**	–
Loans from a related party	(iv)	**60,000**	–
Repayment of loans to a related party	(iv)	**52,000**	–
Interest expense for a loan from a related party	(v)	**1,416**	1,420
Withdrawal of net deposits with a related party	(vi)	**(28,423)**	(18,570)

Notes:

(i) Mainly represent 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), packaging purchased from Henan Fusen Great Health Industry Limited (河南福森大健康產業有限公司), and construction 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 Nanyang Fusen Magnesium Powder Limited (南陽福森鎂粉有限公司) and Henan Fusen Great Health Industry Limited (河南福森大健康產業有限公司) in respect of ancillary services such as short-term leases of premises and other services.

(iii) Represent advances to/repayment from Jiangxi Yongfeng Kangde Pharmaceutical Company Limited (江西永豐康德醫藥有限公司). Certain advances bore interest with rate of 5.22% for the year ended 31 December 2021, and will be due in May 2022.

(iv) Represent non-interest bearing fund received from/repaid to Henan Fusen Shiye Group Limited (河南福森實業集團有限公司), which is due in June 2022.

(v) In August 2019, the Group borrowed a loan from Henan Xichuan Rural Commercial Bank Company Limited (河南淅川農村商業銀行股份有限公司) of RMB20,000,000 with a maturity period of 3 years and interest rate of 6.98% per annum. The loan was secured by the Group's property, plant and equipment and land use rights. In September 2019, Henan Xichuan Rural Commercial Bank Company Limited became a related party of the Group.

(vi) Represent withdrawal of net deposits placed in Henan Xichuan Rural Commercial Bank Company Limited.

34 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:

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Salaries and wages	**2,733**	2,246
Retirement benefits	**44**	31
Bonuses and other benefits	**373**	434
	3,150	2,711

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

(c) Balances with related parties

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Prepayment and other receivables-advances and accrued interests	**36,913**	–
Prepayment and other receivables-prepayments	**2,885**	736
Trade and bills payables	**4,054**	3,897
Accruals and other payables-advances	**9,606**	1,606
Accruals and other payables-other payables	**7,728**	400
Cash and cash equivalents	**92**	28,516
Bank loans	**20,000**	20,000

Except for advances to a joint venture and bank loans, other amounts due to or from related parties are unsecured, interest free and repayable or receivable on demand.

34 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Financial guarantees provided by related parties

As disclosed in note 29, bank loans of RMB80,000,000 (2020: nil) are guaranteed by related parties Henan Fusen Shiye Group Limited (河南福森實業集團有限公司) and Henan Fusen New Energy Technology Limited (河南福森新能源科技有限公司).

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

During the year, 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), purchase of construction materials from Xichuan Fusen Goods and Materials Limited (淅川縣福森物資有限公司), and purchase of packaging from Henan Fusen Great Health Industry Limited (河南福森大健康產業有限公司) as mentioned in Note 34(a)(i), constitute continuing connected transactions and 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.

The advances to a joint venture as disclosed in Note 34(a)(iii) and the loans from and the deposits placed in the financial institution — Henan Xichuan Rural Commercial Bank Company Limited (河南淅川農村商業銀行股份有限公司) as disclosed in Note 34(a)(v) and Note 34(a)(vi) do not constitute connected transactions as the directors considered that the joint venture and Henan Xichuan Rural Commercial Bank Company Limited are not connected parties of the Group as defined in Chapter 14A of the Listing Rules.

Except for the above, the directors considered all other transactions in 2021 disclosed in Note 34(a) are exempted according to Rules 14A.76(1)(c) and 14A.90 of the Listing Rules.

35 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2021, the directors consider the immediate parent of the Company to be Full Bliss Holdings Limited and the ultimate controlling party of the Company to be Mr. Cao Changcheng.

36 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
Non-current assets			
Right-of-use assets		**239**	–
Investments in subsidiaries		**219,493**	225,946
		219,732	225,946
Current assets			
Prepayments and other receivables		**31,937**	31,934
Trading securities		**–**	15,489
Other financial assets		**642**	–
Cash and cash equivalents		**25,995**	18,483
		58,574	65,906
Current liabilities			
Accruals and other payables		**28,773**	9,536
Net current assets		**29,801**	56,370
Total assets less current liabilities		**249,533**	282,316
Non current liabilities			
Lease liabilities		**72**	–
Net assets		**249,461**	282,316
Capital and reserves			
Share capital	31(b)	**6,479**	6,513
Reserves	31(c)	**242,982**	275,803
Total equity		**249,461**	282,316

(Expressed in RMB'000 unless otherwise indicated)

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2021

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for years beginning on or after
Amendments to IFRS 3, Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16, Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IAS 37, Onerous Contracts — Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRSs 2018–2020 Cycle	1 January 2022
Amendments to IAS 1, Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8, Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12, Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

38 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Proposed dividend

After the end of the reporting period, the Board of Directors proposed a final dividend for 2021. For detail, please refer to Note 12.

39 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 23 March 2022.