



2022

INTERIM REPORT



福森藥業有限公司
FUSEN PHARMACEUTICAL COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1652



Contents

Corporate Information	2
Management Discussion and Analysis	4
Disclosure of Interests	11
Corporate Governance and Other Information	14
Review Report	17
Consolidated Statement of Profit or Loss and Other Comprehensive Income	18
Consolidated Statement of Financial Position	20
Consolidated Statement of Changes in Equity	22
Condensed Consolidated Cash Flow Statement	23
Notes to the Unaudited Interim Financial Report	24

Corporate Information

EXECUTIVE DIRECTORS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

Mr. Wong Tik Man

AUTHORIZED REPRESENTATIVES

Mr. Cao Zhiming
Mr. Wong Tik Man

AUDITOR

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

COMPLIANCE ADVISER

Dakin Capital Limited

LEGAL ADVISOR

D. S. Cheung & Co.

REGISTERED OFFICE

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN CHINA

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

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

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

HONG KONG SHARE REGISTRAR

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

CAYMAN ISLANDS SHARE REGISTRAR

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

Corporate Information

PRINCIPAL BANKERS

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

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

SHARE INFORMATION

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

COMPANY'S WEBSITE

www.fusenyy.com

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS

In the first half of 2022, affected by the COVID-19 pandemic, various provinces in Mainland China adopted different levels of pandemic prevention measures, including restricting the movement of people, restricting the sales of drugs for cold and fever in pharmacies and requiring real-name registration of customers. Henan Province, the Company's main sales region, was also affected by the COVID-19 pandemic and the above measures, and product sales were greatly affected. Customer visits of business personnel were restricted to a certain extent, resulting in a decline in revenue in the first half of the year. The revenue and gross profit for the first half of 2022 were RMB165.6 million and RMB79.7 million respectively, representing a decrease of approximately 22.7% and 32.6% respectively as compared to the corresponding period in 2021. The decrease in revenue was mainly attributable to the decrease in sales volume in the product named Shuanghuanglian Oral Solutions as a result of the implementation of control measures to combat the COVID-19 outbreak in the PRC in the first half of 2022 which have restricted the sales of antitussive and cold medicine.

Weihai Rensheng Pharmaceutical Group Company Limited* (威海人生藥業集團股份有限公司) (“**Weihai Rensheng**”), an associate of the Company, was also affected by the epidemic, which affected the sales of the Company to a certain extent. The core product of Jiangxi Yongfeng Kangde Pharmaceutical Company Limited* (江西永豐康德醫藥有限公司) (a joint venture of the Group) (“**Jiangxi Kangde**”), Kefadim, as affected by the national centralised procurement policy, recorded a decrease in revenue. However, with the passing of the consistency evaluation of Kefadim in July, the Company expects that sales volume will pick up in the second half of the year.

Although the performance declined in the first half of the year due to the impact of the pandemic, the Company believes that the basic demand for products has not changed. With the alleviation of the pandemic and more scientific and precise prevention and control measures, the sales volume is likely to return to a normal level. Meanwhile, the Company is also continuously enriching its product structure, seeking market opportunities, and resuming the production of its existing products to the market. Nikadiping injection has resumed production and won the bid for centralized procurement in 14 provincial alliances, which led to a gradual increase in sales volume; Compound Bupropylene and Antailin tablets have passed the process verification and are expected to obtain production approval and commence sales in the second half of the year.

Management Discussion and Analysis

In terms of new product research and development and product introduction, a wholly-owned subsidiary, Jiaheng (Zhuhai Hengqin) Pharmaceutical Technology Company Limited* (嘉亨(珠海橫琴)醫藥科技有限公司) (“**Jiaheng Pharmaceutical**”), obtained the drug production licence in the first half of the year and became the Marketing Authorization Holder (“**MAH**”). As the Company’s research and development platform, Jiaheng Pharmaceutical continues to seek for products with market potential for project research and development. Currently, there are a total of 18 research and development projects in progress, including four traditional Chinese medicine projects, three Class 3 chemical drugs, five Class 4 chemical drugs and one chemical generic drug consistency evaluation project. Meanwhile, in order to ensure the raw material supply and cost advantages of chemical drug products, the Company has also established five chemical API projects for research and development. In April this year, one consistency evaluation project for chemical and generic drugs has completed review and approval, and obtained the Notice of Approval for Supplementary Drug Application. Fusen (Shenzhen) Biomedical R&D Co., Ltd* (福森(深圳)生物醫藥研發有限公司), a wholly-owned subsidiary of the Company, has obtained the qualification for the operation of Class III medical devices in 2021 and obtained the commercialization rights of KARISMA products from TAUMED, an Italian company, in the Greater China region in the first half of this year. It is expected that the import registration of this product will commence in the second half of the year. The Company expects that the research and development expenses will increase significantly this year as compared with previous years. However, we believe that the investment in such research and development expenses is necessary and will bring more new products to the Company in the next three to five years, bringing new growth points for the Company’s medium and long-term development. The operation of Weihai Rensheng, an associate of the Company, is gradually on the right track. With the addition of a new sales team, it will gradually expand the market and increase sales volume.

Kefadim, the core product of Jiangxi Kangde, a joint venture of the Group, has passed the consistency evaluation in July, and it is expected that the sales volume will gradually pick up. Meanwhile, the product of Atomoxetine capsule for attention deficit and hyperactivity disorder for children and adolescents has been approved for marketing in June, which will gradually contribute to the sales volume. The Company will continue to identify and introduce new products with market potential.

The ongoing COVID-19 pandemic has brought many challenges to the Company’s operations. The Company will actively respond and continue to enrich its product portfolio and expand into new markets.

Management Discussion and Analysis

FINANCIAL REVIEW

Sales performance

	Unaudited				
	Six months ended 30 June				
	2022		2021		Changes %
Revenue RMB'000	% of total	Revenue RMB'000	% of total		
Shuanghuanglian Oral Solutions (10 ml)	44,600	26.9%	89,523	41.8%	(50.2%)
Shuanghuanglian Oral Solutions (20 ml)	20,781	12.6%	33,579	15.7%	(38.1%)
Subtotal	65,381	39.5%	123,102	57.5%	(46.9%)
Shuanghuanglian Injections	32,771	19.8%	23,082	10.8%	42.0%
Compound Ferrous Sulfate Granules	8,270	5.0%	10,749	5.0%	(23.1%)
Flunarizine Hydrochloride Capsules	11,608	7.0%	10,571	4.9%	9.8%
Third-party products	8,180	4.9%	–	–	N/A
Others products	39,401	23.8%	46,708	21.8%	(15.6%)
Subtotal	100,230	60.5%	91,110	42.5%	10%
Total	165,611	100%	214,212	100%	(22.7%)

Our revenue decreased by approximately 22.7% from approximately RMB214.2 million in the first half of 2021 to approximately RMB165.6 million in the first half of 2022, primarily due to the decrease in sales volume.

Among our product categories, revenue from sales of Shuanghuanglian Oral Solutions decreased by approximately 46.9% from approximately RMB123.1 million in the first half of 2021 to approximately RMB65.4 million in the first half of 2022, which was mainly attributable to the implementation of control measures to combat the COVID-19 outbreak in the PRC. Revenue from sales of Shuanghuanglian Injections increased by approximately 42.0% from approximately RMB23.1 million in the first half of 2021 to approximately RMB32.8 million in the first half of 2022, which was mainly attributable to the Company's temporary sales promotion by offering sales discount to speed up the product turnover. Our revenue from other products decreased by approximately 15.6% from approximately RMB46.7 million in the first half of 2021 to approximately RMB39.4 million in the first half of 2022, which was mainly attributable to the fluctuating demand.

Management Discussion and Analysis

Gross profit and margin

Our gross profit decreased by approximately 32.6% from approximately RMB118.2 million for the first half year of 2021 to approximately RMB79.7 million for the first half year of 2022. The decrease in gross profit is in line with the approximately 22.7% decrease in total revenue for the first half year of 2022. Meanwhile, gross profit margin slightly decreased by 7.1% to approximately 48.1% for the first half year of 2022 (approximately 55.2% for the first half of 2021).

Other net (loss)/income

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

Selling and distribution expenses

Our selling and distribution expenses primarily consist of distribution expenses, commission, advertisement, wages and salaries, promotion expenses and others. In the first half of 2021 and 2022, our selling and distribution expenses amounted to approximately RMB50.9 million and RMB44.6 million respectively, representing approximately 23.8% and 26.9% of our revenue for the respective periods. The decrease in selling and distribution expenses is mainly due that some of marketing activities were suspend or cancelled during the period of the implementation of control measures to combat the COVID-19 outbreak in the PRC in the first half of 2022. The decrease is in line with the decrease in revenue.

General and administrative expenses

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

The decrease of general and administrative expenses of approximately RMB3.6 million from approximately RMB31.5 million for the first half year of 2021 to approximately RMB27.9 million for the first half year of 2022. In the first half of 2022, the Company reverses approximately RMB5.5 million of bad debts. Meanwhile, the Company increased its investment in research and development (R&D), including R&D staff labor and project expenses, which increased by approximately RMB3.9 million in total. The above two items contribute a slight decrease in general and administrative expenses.

Net finance costs

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

The net finance costs increased from approximately RMB5.9 million in the first half year of 2021 to approximately RMB9.9 million in the first half year of 2022, mainly attributable to the increase in net foreign exchange loss and interest on bank loans.

Management Discussion and Analysis

Share of (loss)/profit of a joint venture

Share of (loss)/profit of a joint venture representing the Group's interests decreased by approximately RMB13.2 million from approximately RMB11.7 million profit for the six months ended 30 June 2021 to approximately RMB1.5 million loss for the six months ended 30 June 2022. It was affected by a centralized procurement policy in the first half of 2022. The Group interests is due from Jiangxi Yongfeng Kangde, whose 35.8% shares are owned by the Group.

Income tax expenses

Income tax primarily represents income tax payable by the Group under relevant PRC income tax rules and regulations. Henan Fusen, our subsidiary, was certified as a High New Technology Enterprise in Henan province and has been entitled to a preferential income tax rate of 15%. Income tax expenses decreased from approximately RMB7.0 million in the first half year of 2021 to approximately RMB0.2 million negative amount. The decrease is mainly attributable to the operation loss in the first half year of 2022.

CAPITAL EXPENDITURES

The Group's capital expenditures primarily consist of payments and deposits for purchase of property, plant and equipment, right-of-use assets and intangible assets. In the first half year of 2022, the total capital expenditure was approximately RMB19.5 million (the first half year of 2021: approximately RMB68.0 million). The capital expenditures during the period were mainly incurred for the construction of new production facilities.

BANK AND OTHER LOANS

As at 30 June 2022, the Group's short-term borrowings and long-term borrowings amounted to approximately RMB281.3 million (31 December 2021: approximately RMB236.9 million).

	As at 30 June 2022 RMB'000	As at 31 December 2021 RMB'000
Short-term borrowings	207,343	160,915
Long-term borrowings	74,000	76,000
Total	281,343	236,915

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.

Management Discussion and Analysis

CAPITAL STRUCTURE

The Group's capital structure consists of equity interest attributable to shareholders and liabilities. As at 30 June 2022, the Group's equity interest attributable to shareholders amounted to approximately RMB641.4 million (31 December 2021: approximately RMB658.2 million) in aggregate and total liabilities amounted to approximately RMB578.8 million (31 December 2021: approximately RMB582.4 million). The Group is committed to maintaining an appropriate combination of equity and debt, in order to maintain an effective capital structure and provide maximum returns for shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2022, the Group had net current assets of approximately RMB10.2 million (31 December 2021: net current assets of approximately RMB20.0 million), which included cash and cash equivalents of approximately RMB52.6 million (31 December 2021: approximately RMB81.1 million) and the short-term bank and other loans amounting to approximately RMB207.3 million (31 December 2021: approximately RMB160.9 million).

The Group had available unutilised bank borrowings facilities of approximately RMB143.1 million as at 30 June 2022 (31 December 2021: approximately RMB143.1 million).

The Directors have confirmed that the Group will have sufficient financial resources to meet its financial obligations as they all due in the foreseeable future.

GEARING RATIO

As at 30 June 2022, the gearing ratio of the Group, which is calculated by dividing total bank and other loans by total equity, increased to 44.0% from 36.1% as at 31 December 2021. The increase was primarily due to the increase in the bank loans borrowed by the Group.

EXCHANGE RISK

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

HUMAN RESOURCES

As at 30 June 2022, the Group had a total of 1,143 employees (31 December 2021: 1,243 employees). The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's and individual's performance.

For the first half year of 2022, the total staff cost (including Director's emoluments, contributions to defined contribution retirement schemes, bonus and other benefits) amounted to approximately RMB38.3 million (six months ended 30 June 2021: RMB43.8 million).

Management Discussion and Analysis

COMMITMENT

Capital commitments of the Group outstanding as at 30 June 2022 and 31 December 2021 are as follows:

	30 June 2022 RMB'000	31 December 2021 RMB'000
Contracted for	540	1,819

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2022.

PLEDGE OF ASSETS

As at 30 June 2022, certain of the Group's bank borrowings were secured by the Group's property, plant and equipment and land use rights, which had an aggregate carrying amount of approximately RMB118.4 million as of 30 June 2022 (31 December 2021: approximately RMB87.1 million).

Disclosure of Interests

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

Disclosure of interests

As at 30 June 2022, so far as the Directors are aware, the interests or short positions of the Directors or chief executives in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571) (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), are as follows.

Long position in our Shares

Name of Director	Capacity/Nature	Number of Shares held/ interested	Percentage of interest
Mr. Cao Changcheng ^(Notes 1, 2 and 3)	Interest of a controlled corporation	495,374,000	65.75%
Mr. Cao Zhiming (formerly known as Mr. Cao Dudu) ^(Note 2)	Interest of a controlled corporation	135,014,000	17.92%
Mr. Hou Taisheng ^(Note 4)	Beneficiary of a trust	13,399,165	1.78%
Ms. Meng Qingfen ^(Note 4)	Beneficiary of a trust	11,809,433	1.57%
Mr. Chi Yongsheng ^(Note 4)	Beneficiary of a trust	12,944,956	1.72%

Notes:

1. Full Bliss Holdings Limited (the "Full Bliss") is wholly-owned by Mr. Cao Changcheng. As Mr. Cao Changcheng beneficially owns 100% of the issued shares of Full Bliss, Mr. Cao Changcheng is deemed to be interested in 180,180,000 Shares held by Full Bliss pursuant to the SFO.
2. Mr. Cao Zhiming (formerly known as Mr. Cao Dudu) is the beneficial owner of the entire issued share capital of One Victory Investments Limited (the "One Victory") and is therefore deemed to be interested in the 135,014,000 Shares held by One Victory pursuant to the SFO. Furthermore, pursuant to the Second Deed of Confirmation dated 18 August 2017 entered into between Mr. Cao Changcheng, Mr. Cao Zhiming and One Victory, Mr. Cao Changcheng is entrusted to exercise all voting rights attaching to the Shares owned by One Victory and direct One Victory to vote accordingly.
3. Mr. Cao Changcheng is the protector of the Fusen Trust who has the power to remove the trustee and appoint new trustee for the Fusen Trust. Mr. Cao Changcheng is also the investment manager of the Fusen Trust, who is entitled to carry out the investment and management functions of the Fusen Trust, including the exercise of all voting rights attaching to the Shares owned by Rayford Global Limited (the "Rayford") and direct the trustee of the Fusen Trust to vote accordingly. Mr. Cao Changcheng, through Full Bliss, Rayford and One Victory, is therefore interested in an aggregate of 495,374,000 Shares, representing 65.75% of our issued share capital under the SFO.
4. Each of Mr. Hou Taisheng, Mr. Chi Yongsheng, and Ms. Meng Qingfen, who is our executive Director, is a beneficiary under the Fusen Trust.

Disclosure of Interests

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

As at 30 June 2022, as far as the Directors aware, the following persons (not being a Director or chief executive of our Company) have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Our Company

Name	Capacity/Nature	Number of Shares held/ interested	Percentage of interest
Full Bliss	Beneficial owner	180,180,000	23.91%
Rayford	Beneficial owner	180,180,000	23.91%
TCT (BVI) Limited ^(Note 1)	Nominee of a trustee	180,180,000	23.91%
THE CORE TRUST COMPANY LIMITED ^(Note 1)	Trustee	180,180,000	23.91%
Ms. Quan Xiufeng ^(Note 2)	Interest of spouse	495,374,000	65.75%
One Victory	Beneficial owner	135,014,000	17.92%
Ms. Zhou Peilin (formerly known as Ms. Zhou Rui) ^(Note 3)	Interest of spouse	135,014,000	17.92%
First Joint Elegant Limited	Beneficial owner	39,960,000	5.30%
Mr. Lam Yiu Por ^(Note 4)	Interest of a controlled corporation	39,960,000	5.30%
Ms. Fung Wai Sze ^(Note 5)	Interest of spouse	39,960,000	5.30%

Notes:

- The Core Trust Company 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. TCT (BVI) Limited acts as the nominee to the trustee of the Fusen Trust, and holds 100% of the issued shares of Rayford. TCT (BVI) Limited is wholly owned by The Core Trust Company Limited. As such, The Core Trust Company Limited and TCT (BVI) Limited are deemed to be interested in 180,180,000 Shares held by Rayford pursuant to the SFO.
- Ms. Quan Xiufeng is Mr. Cao Changcheng's spouse and is deemed to be interested in the 495,374,000 Shares in which Mr. Cao Changcheng is interested for the purpose of the SFO.
- Ms. Zhou Peilin is Mr. Cao Zhiming (formerly known as Mr. Cao Dudu)'s spouse and is deemed to be interested in the 135,014,000 Shares in which Mr. Cao Zhiming is interested for the purpose of the SFO.
- First Joint Elegant Limited ("**First Joint Elegant**") is wholly owned by Mr. Lam Yiu Por. As Mr. Lam Yiu Por beneficially owns 100% of the issued shares of First Joint Elegant, Mr. Lam Yiu Por is deemed to be interested in 39,960,000 shares held by First Joint Elegant pursuant to the SFO.
- Ms. Fung Wai Sze is Mr. Lam Yiu Por's spouse and is deemed to be interested in the 39,960,000 shares in which Mr. Lam Yiu Por is interested for the purpose of the SFO.

Disclosure of Interests

SHARE OPTION SCHEME

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

The following table discloses movements in the Company’s share options outstanding under the Share Option Scheme during the period ended 30 June 2022:

Name/category of participants	At 31 December 2021	Date of grant of share options	Exercised during the period	Granted during the period	Lapsed during the period	Canceled during the period	At 30 June 2022	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	8,000,000	19 July 2019	–	–	–	–	16,000,000	All of the share options granted have been vested on 19 October 2019	19 October 2019–13 June 2028	3.098	3.04
	for each employee						in total				

As at 30 June 2022, no share options were granted under the Share Option Scheme.

As at the date of approval of this interim report, there were 16,000,000 outstanding share options granted under the Share Option Scheme, representing approximately 2.11% of the issued share capital of the Company.

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

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

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

Corporate Governance and Other Information

CORPORATE GOVERNANCE

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

The Company has adopted the code provisions stated in the Corporate Governance Code (the “**Code**”) as set out in Appendix 14 to the Listing Rules. Throughout the period from 1 January 2022 to 30 June 2022, save for code provision C.6.1 of the Code, the Company has complied with all applicable code provisions set out in the Code.

Code provision C.6.1 of the Code requires that the company secretary should be an employee of the Company and have day-to-day knowledge of the Company’s affairs. Mr. Wong Tik Man (“**Mr. Wong**”) was appointed as the company secretary of the Company with effect from 29 January 2021. He is an external service provider and he is not an employee of the Company. The Company has thus assigned Mr. Li Zhen, the chief financial officer of the Company, as the primary contact person with Mr. Wong. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Mr. Wong through the contact person assigned. Having in place a mechanism that Mr. Wong will get hold of the Group’s development promptly without material delay and with his expertise and experience, the Board is confident that having Mr. Wong as the company secretary is beneficial to the Group’s compliance with the relevant board procedures, applicable laws, rules and regulations.

AUDIT COMMITTEE

The Company established an audit committee (the “**Audit Committee**”) on 14 June 2018 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph D.3 of the Code. During the six months ended 30 June 2022, the Audit Committee consisted of three independent non-executive Directors, Mr. Sze Wing Chun (being the chairman of the Audit Committee who has a professional qualification in accountancy), Mr. Lee Kwok Tung, Louis and Dr. To Kit Wa.

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

REVIEW OF THE INTERIM REPORT

The Audit Committee has discussed with the management of the Company the internal control and financial reporting matters related to the preparation of the unaudited condensed interim financial report for the six months ended 30 June 2022. It has also reviewed the unaudited condensed interim financial report for the six months ended 30 June 2022 with the management and the auditor of the Company and recommended them to the Board for approval.

The interim financial report for the six months ended 30 June 2022 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity”, issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included on page 17.

Corporate Governance and Other Information

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiries, all Directors confirmed that they have complied with the required standard of dealing as set out in the Model Code for the six months ended 30 June 2022.

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

During the six months ended 30 June 2022, the Company repurchased a total of 11,612,000 Shares on the Stock Exchange at an aggregate consideration of (excluding expenses) approximately HK\$12.1 million. A total of 16,495,000 repurchased shares were cancelled during the six months ended 30 June 2022 on 8 June 2022. The issued share capital of the Company was reduced by the par value thereof. Details of the repurchases of shares were as follows:

Month of repurchase	Number of Shares repurchased	Price per Share		Aggregate consideration (excluding expenses) HK\$'000
		Highest HK\$	Lowest HK\$	
January, March, April, May and June 2022	11,612,000	1.30	0.9	12,080

The repurchases of shares were made by the Directors, pursuant to the general mandates granted by the Shareholders at the annual general meetings held on 26 May 2021 and 31 May 2022 with a view to benefiting the Shareholders as a whole by enhancing the net asset value per share and earnings per share.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2022.

INTERIM DIVIDEND

The directors of the Company do not recommend the payment of a dividend in respect of the six months ended 30 June 2022 (six months ended 30 June 2021: RMB0.57 cents).

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Pursuant to the restricted share unit scheme of the Company approved and adopted by the Board on 8 November 2021 (the "RSU Scheme"), on 8 July 2022, the Board has approved to grant a total of 5,000,000 restricted share units ("RSU(s)") in aggregate to two grantees (the "Grantees"), both of which are business development staff of the Group and are third parties independent of and not connected with the Company, its subsidiaries and its connected persons.

Corporate Governance and Other Information

On 8 July 2022, the Board has resolved to allot and issue 5,000,000 shares of the Company (the “**New Shares**”) under the general mandate granted to the Directors at the annual general meeting of the Company held on 31 May 2022. The New Shares will be held on trust by Global Talent Alliance Limited (a wholly-owned subsidiary of the trustee appointed by the Board to assist in the administration of the RSU Scheme, the “**RSU Nominee**”) for the Grantees until the relevant RSUs have been exercised, upon which the New Shares shall be transferred to the Grantees. The New Shares were issued to the RSU Nominee on 29 July 2022.

For further details of the RSU Scheme, the grant of the RSUs and the issue of New Shares, please refer to the announcements of the Company dated 8 November 2021, 8 July 2022 and 25 July 2022, respectively.

Save as disclosed above, as at the date of this report, there are no other important events affecting the Group which has occurred since 30 June 2022.

Review Report



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

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 18 to 40 which comprises the consolidated statement of financial position of Fusen Pharmaceutical Company Limited (the “**Company**”) and its subsidiaries (the “**Group**”) as of 30 June 2022 and the related consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2022 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

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

29 August 2022

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2022 — unaudited
(Expressed in RMB'000 unless otherwise indicated)

	Note	Six months ended 30 June	
		2022 RMB'000	2021 RMB'000
Revenue	4	165,611	214,212
Cost of sales		(85,878)	(95,980)
Gross profit		79,733	118,232
Other net (loss)/income	5	(57)	11,059
Selling and distribution expenses		(44,594)	(50,914)
General and administrative expenses		(27,904)	(31,529)
Profit from operations		7,178	46,848
Finance income		953	1,212
Finance costs		(10,884)	(7,074)
Net finance costs	6	(9,931)	(5,862)
Share of (loss)/profit of a joint venture		(1,462)	11,721
Share of loss of an associate		(3,098)	(1,910)
(Loss)/profit before taxation	7	(7,313)	50,797
Income tax expenses	8	236	(6,988)
(Loss)/profit for the period		(7,077)	43,809
Attributable to:			
Equity shareholders of the Company		(7,037)	43,919
Non-controlling interests		(40)	(110)
(Loss)/profit for the period		(7,077)	43,809

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

For the six months ended 30 June 2022 — unaudited
(Expressed in RMB'000 unless otherwise indicated)

	Note	Six months ended 30 June	
		2022 RMB'000	2021 RMB'000
Other comprehensive income for the period (after tax)			
<i>Item that may be reclassified subsequently to profit or loss</i>			
— Exchange differences on translation of financial statements of the Company and overseas subsidiaries		1,862	(555)
Other comprehensive income for the period		1,862	(555)
Total comprehensive income for the period		(5,215)	43,254
Attributable to:			
Equity shareholders of the Company		(5,175)	43,364
Non-controlling interests		(40)	(110)
Total comprehensive income for the period		(5,215)	43,254
(Loss)/earnings per share	9		
Basic (RMB cents)		(1)	6
Diluted (RMB cents)		(1)	6

The accompanying notes form part of this interim financial report.

Consolidated Statement of Financial Position

As at 30 June 2022 — unaudited
(Expressed in RMB'000 unless otherwise indicated)

	Note	30 June 2022 RMB'000	31 December 2021 RMB'000
Non-current assets			
Investment property	10	17,050	17,605
Other property, plant and equipment	10	278,679	281,877
Right-of-use assets	11	221,152	224,157
Intangible assets		583	683
Interest in a joint venture		58,575	60,037
Interest in an associate		136,009	138,027
Deferred tax assets		6,674	5,629
Other assets		2,099	2,099
		720,821	730,114
Current assets			
Other financial assets	24	3,351	642
Inventories	12	114,217	121,845
Trade receivables	13	152,882	157,581
Prepayments and other receivables		155,058	148,091
Restricted bank deposit	14	20,000	–
Cash and cash equivalents	15	52,627	81,063
		498,135	509,222
Current liabilities			
Trade and bills payables	16	120,804	102,115
Lease liabilities		2,084	1,833
Contract liabilities		6,794	4,617
Accruals and other payables		150,865	219,069
Bank and other loans	17	207,343	160,915
Other financial liabilities	24	–	717
		487,890	489,266
Net current assets		10,245	19,956
Total assets less current liabilities		731,066	750,070

Consolidated Statement of Financial Position *(Continued)*

As at 30 June 2022 — unaudited
(Expressed in RMB'000 unless otherwise indicated)

	Note	30 June 2022 RMB'000	31 December 2021 RMB'000
Non-current liabilities			
Deferred income		10,525	10,508
Lease liabilities		1,392	1,940
Bank and other loans	17	74,000	76,000
Deferred tax liabilities		5,031	4,678
		90,948	93,126
NET ASSETS			
		640,118	656,944
CAPITAL AND RESERVES			
Share capital	19	6,340	6,479
Reserves		635,043	651,690
Total equity attributable to equity shareholders of the Company			
		641,383	658,169
Non-controlling interests			
		(1,265)	(1,225)
TOTAL EQUITY			
		640,118	656,944

The accompanying notes form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2022 — unaudited
(Expressed in RMB'000 unless otherwise indicated)

Note	Attributable to equity shareholders of the Company										Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Treasury shares reserve RMB'000	Capital redemption reserve RMB'000	Statutory surplus reserves RMB'000	Share option reserve RMB'000	Other reserves RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000		
Balance at 1 January 2022	6,479	259,458	(43)	253	54,071	26,655	(12,466)	14,344	309,418	658,169	(1,225)	656,944
Loss for the period	-	-	-	-	-	-	-	-	(7,037)	(7,037)	(40)	(7,077)
Other comprehensive income	-	-	-	-	-	-	-	1,862	-	1,862	-	1,862
Total comprehensive income for the period	-	-	-	-	-	-	-	1,862	(7,037)	(5,175)	(40)	(5,215)
Dividends approved in respect of the previous year	21(b)	(2,618)	-	-	-	-	-	-	-	(2,618)	-	(2,618)
Purchase of own shares	20	(9,975)	(98)	-	-	-	-	-	-	(10,073)	-	(10,073)
Cancellation of treasury shares	20	-	-	-	-	-	-	-	-	-	-	-
— Par value		(139)	139	-	-	-	-	-	-	-	-	-
— Transfer between reserves		-	(139)	139	-	-	-	-	-	-	-	-
Changes in the share of other reserves of investment in an associate		-	-	-	-	-	1,080	-	-	1,080	-	1,080
Balance at 30 June 2022	6,340	246,726	(2)	392	54,071	26,655	(11,386)	16,206	302,381	641,383	(1,265)	640,118

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

The accompanying notes form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2022 — unaudited
(Expressed in RMB'000 unless otherwise indicated)

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Operating activities		
Cash (used in)/generated from operations	(46,270)	45,920
Income tax paid	(75)	(10,119)
Net cash (used in)/generated from operating activities	(46,345)	35,801
Investing activities		
Loan to a joint venture	–	(45,000)
Repayments from a joint venture	9,300	–
Payment to acquire interest of an associate	–	(153,000)
Payment for the purchase of property, plant and equipment	(19,479)	(67,989)
Proceeds from sale of trading securities	–	10,263
Other cash flow (used in)/generated from investing activities	(1,620)	1,352
Net cash used in investing activities	(11,799)	(254,374)
Financing activities		
Borrowing costs paid	(5,920)	(4,947)
Loan from a related party	78,895	30,000
Repayment of loans to a related party	(83,895)	–
Dividends paid	(7,036)	–
Payment for restricted bank deposit	(20,000)	–
Capital element of lease rentals paid	(950)	(250)
Interest element of lease rentals paid	(102)	(50)
Proceeds from bank and other loans	184,789	126,876
Repayment of bank and other loans	(107,172)	(173,569)
Payment for purchase of own shares	(10,073)	(1,985)
Net cash generated from/(used in) financing activities	28,536	(23,925)
Net decrease in cash and cash equivalents	(29,608)	(242,498)
Cash and cash equivalents at 1 January	81,063	297,038
Effect of foreign exchange rate changes	1,172	(738)
Cash and cash equivalents at 30 June	52,627	53,802

The accompanying notes form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in RMB'000 unless otherwise indicated)

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

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

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

2 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), including compliance with International Accounting Standard (“**IAS**”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“**IASB**”). It was authorised for issue on 29 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

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

The interim financial report contains consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial report performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). KPMG’s independent review report to the Board of Directors of the Company is included on page 17.

The financial report relating to the financial year ended 31 December 2021 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. The Company’s annual consolidated financial statements for the year ended 31 December 2021 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 23 March 2022.

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

(Expressed in RMB'000 unless otherwise indicated)

2 BASIS OF PREPARATION *(Continued)*

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 2022. The Group's turnover for the six months ended 30 June 2022 decreased by 22.7%, and the Group incurred a loss of RMB7,077,000 and recorded a net operating cash outflow of RMB46,345,000 for the six months ended 30 June 2022. As at 30 June 2022, net current assets of the Group was RMB10,245,000. Considering the current economic conditions, management has comprehensively considered (i) the Group's cash flow forecast for the 12 months ending 30 June 2023; (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 six months ended 30 June 2022 have been prepared on a going concern basis.

3 CHANGES IN ACCOUNTING POLICIES

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

- *Amendments to IAS 16, Property, plant and equipment: Proceeds before intended use*
- *Amendments to IAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract*

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

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

(Expressed in RMB'000 unless otherwise indicated)

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Shuanghuanglian Oral Solutions	65,381	123,102
Shuanghuanglian Injections	32,771	23,082
Third party products	8,180	–
Others	59,279	68,028
	165,611	214,212

Revenue is recognised at point in time.

During the six months ended 30 June 2022, one of the Group's customers (2021: one customer) with whom transactions have exceeded 10% of the Group's revenue. Revenue from sales of pharmaceutical products to this customer amounted to RMB21,580,000 (2021: RMB28,232,000).

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.

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

(Expressed in RMB'000 unless otherwise indicated)

5 OTHER NET (LOSS)/INCOME

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Government grants	502	9,553
Net realised and unrealised gains on derivative financial instruments	3,388	2,686
Net loss on disposal of assets	(7)	(2,956)
Others	(3,940)	1,776
	(57)	11,059

6 NET FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Finance income	953	1,212
Less: Finance costs		
— Interest on bank loans	6,217	4,903
— Net foreign exchange losses	4,667	2,171
Net finance costs	(9,931)	(5,862)

7 (LOSS)/PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Cost of inventories	86,497	96,347
Research and development costs	10,005	6,070
Depreciation of investment property and other property, plant and equipment	11,961	7,633
Depreciation of right-of-use assets	3,657	3,288
Amortisation of intangible assets	100	100
(Reversal)/recognition of credit losses on trade and other receivables	(5,497)	1,406

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

(Expressed in RMB'000 unless otherwise indicated)

8 INCOME TAX EXPENSES

Amounts recognised in profit or loss:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current tax — the PRC Enterprise Income Tax	456	4,840
Deferred tax	(692)	2,148
	(236)	6,988

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

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2021: 16.5%) to the six months ended 30 June 2022. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

In accordance with the Enterprise Income Tax Law of the PRC ("**the Income Tax Law**"), enterprise income tax rate for the Group's PRC subsidiaries during the six months ended 30 June 2022 is 25% (2021: 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% (2021: 15%), which has been applied for each of the six months ended 30 June 2022 and 2021. The current certification of New and High Technology Enterprise held by Henan Fusen will expire 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.

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

(Expressed in RMB'000 unless otherwise indicated)

9 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB7,037,000 (six months ended 30 June 2021: profit of RMB43,919,000) and the weighted average of 758,986,000 ordinary shares (2021: 769,951,000) in issue during the reporting period, calculated as follows:

	Six months ended 30 June	
	2022 '000	2021 '000
Issued ordinary shares at 1 January	769,934	774,012
Effect of purchase of own shares (Note 20)	(10,948)	(4,061)
Weighted average number of ordinary shares at 30 June	758,986	769,951

(b) Diluted (loss)/earnings per share

The diluted loss per share for the six months ended 30 June 2022 has not taken into account the effect of the outstanding share options as its inclusion would have decreased the loss per share, hence anti-dilutive.

The calculation of diluted earnings per share for the six months ended 30 June 2021 is based on the profit attributable to ordinary equity shareholders of the Company of RMB43,919,000 and the weighted average number of 773,864,000 ordinary shares after adjusting the effects of dilutive potential ordinary shares, calculated as follows:

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

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

(Expressed in RMB'000 unless otherwise indicated)

10 INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2022, the addition for the Group on plant and acquired items of equipment amounted to RMB8,243,000 (six months ended 30 June 2021: RMB92,436,000).

As at 30 June 2022, certain of the Group's bank borrowings were secured by the Group's property, plant and equipment and investment property, which had an aggregate carrying amount of RMB29,616,000 as of 30 June 2022 (31 December 2021: Nil)

11 RIGHT-OF-USE ASSETS

During the six months ended 30 June 2022, the Group entered into a number of lease agreements for leasehold properties and therefore recognised the additions to right-of-use assets of RMB652,000 (six months ended 30 June 2021: RMB2,368,000).

As at 30 June 2022, certain of the Group's bank borrowings were secured by the Group's land use rights, which had an aggregate carrying amount of RMB88,823,000 as at 30 June 2022 (31 December 2021: RMB87,144,000).

12 INVENTORIES

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Raw materials	23,267	41,108
Work in progress	20,520	15,687
Finished goods	70,430	65,050
	114,217	121,845

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

(Expressed in RMB'000 unless otherwise indicated)

13 TRADE RECEIVABLES

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Bills receivable*	82,235	101,145
Trade debtors	74,635	60,369
Less: allowance for credit loss	(3,988)	(3,933)
	70,647	56,436
	152,882	157,581

* At 30 June 2022, the Group's bills receivable of RMB37,537,000 and RMB27,336,000 (31 December 2021: RMB41,550,000 and RMB38,460,000) were endorsed to suppliers and discounted to banks, respectively. As the Group has not transferred the substantial risks and rewards relating to these bills, the Group's management determined not to de-recognise the carrying amounts of these bills and the associated trade payables.

Ageing analysis

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

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Current to 3 months	33,364	42,815
3 to 6 months	33,578	5,522
6 to 12 months	2,760	7,457
Over 12 months	945	642
	70,647	56,436

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

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

(Expressed in RMB'000 unless otherwise indicated)

14 RESTRICTED BANK DEPOSIT

As at 30 June 2022, the restricted deposit at bank of RMB20,000,000 (31 December 2021: Nil) are guaranteed to bank for issuance of bank bills.

15 CASH AND CASH EQUIVALENTS

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Bank deposits	52,627	81,063

16 TRADE AND BILLS PAYABLES

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Current to 3 months	62,329	42,570
3 to 6 months	13,134	24,023
6 to 12 months	25,107	16,022
Over 12 months	20,234	19,500
	120,804	102,115

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

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

(Expressed in RMB'000 unless otherwise indicated)

17 BANK AND OTHER LOANS

	Note	At 30 June 2022		At 31 December 2021	
		Effective interest rate	RMB'000	Effective interest rate	RMB'000
Current					
Borrowings from banks					
— secured					
USD denominated	(i)(ii)	4.99%	51,007	—	—
RMB denominated	(i)	4.75–5.23%	67,000	5.23%	4,000
— unsecured					
USD denominated	(ii)	—	—	4.70%	48,455
RMB denominated		4.70–5.22%	40,000	4.79–5.22%	50,000
Add: current portion of non-current borrowings		5.23–6.98%	22,000	6.98%	20,000
Other borrowings		6.20%	27,336	6.20%	38,460
Total			207,343		160,915
Non-current					
Borrowings from banks					
— secured	(i)	5.23%	74,000	5.23%	76,000
Total			74,000		76,000

Notes:

- (i) As at 30 June 2022, these borrowings were secured by the Group's property, plant and equipment, investment property and right-of-use assets.

As at 31 December 2021, these 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.

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

(Expressed in RMB'000 unless otherwise indicated)

17 BANK AND OTHER LOANS *(Continued)*

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Within 1 year or on demand	207,343	160,915
After 1 year but within 5 years	74,000	76,000
	281,343	236,915

18 EQUITY SETTLED SHARE-BASED TRANSACTIONS

On 14 June 2018 (the “**Adoption Date**”), the Company adopted the Share Option Scheme whereby the Board are authorised, at their discretion, to invite employees, director, consultant, adviser and distributor, contractor, business partner or service provider of the Group, to take up options subscribe for shares of the Company. The Share Option Scheme is valid and effective for a period of 10 years commencing on the Adoption Date unless terminated earlier by the Shareholders in general meeting. The maximum number of shares issuable upon exercise of all options to be granted under the Share Option Scheme must not in aggregate exceed 10% of 800,000,000 share.

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

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**”).

For the six months ended 30 June 2022 and 2021, no share-based payment expenses and other reserve was recognised by the Group.

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

(Expressed in RMB'000 unless otherwise indicated)

19 SHARE CAPITAL

	2022		2021	
	No. of shares	Amount RMB'000	No. of shares	Amount RMB'000
Authorised ordinary shares of HKD0.01 each:				
At 1 January and 30 June	2,000,000,000	16,354	2,000,000,000	16,354
Ordinary shares, issued and fully paid:				
At 1 January	769,934,000	6,479	774,012,000	6,513
Cancellation of treasury shares (Note 20)	(16,495,000)	(139)	(4,078,000)	(34)
At 30 June	753,439,000	6,340	769,934,000	6,479

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

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

(Expressed in RMB'000 unless otherwise indicated)

20 PURCHASE OF OWN SHARES

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

Month/year	Number of shares repurchased	Highest price paid per share HKD	Lowest price paid per share HKD	Aggregate price paid HKD'000	Number of shares cancelled	Number of treasury shares
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	
January 2022	3,431,000	1.30	1.11	4,222	–	8,543,000
March 2022	371,000	1.07	1.03	393	–	8,914,000
April 2022	2,545,000	1.02	0.93	2,500	–	11,459,000
May 2022	5,036,000	0.99	0.90	4,752	–	16,495,000
June 2022	229,000	0.94	0.90	213	16,495,000	229,000
	11,612,000			12,080	16,495,000	

The amount paid for the repurchase of 11,612,000 shares during the six months ended 30 June 2022 was paid wholly out of share premium. The aggregate price paid was HKD12,080,000 (equivalent to approximately RMB10,073,000). In June 2022, the Company cancelled 16,495,000 of the repurchased shares.

As at 30 June 2022, the Group held 229,000 of the Company's shares (31 December 2021: 5,112,000). Treasury shares are not entitled for dividends.

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

(Expressed in RMB'000 unless otherwise indicated)

21 DIVIDENDS

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Nil interim dividend declared after the interim period (2021: RMB0.57 cents (equivalent to HKD0.68 cents) per share)	–	4,389

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

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of RMB0.34 cents (equivalent to HKD0.42 cents) per ordinary share (2021: RMB0.46 cents (equivalent to HKD0.54 cents) per ordinary share)	2,618	3,560

22 COMMITMENTS

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

	At	At
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Contracted for	540	1,819

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

(Expressed in RMB'000 unless otherwise indicated)

23 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2022, the Group has entered into the following material related party transactions:

	Note	Six months ended 30 June	
		2022 RMB'000	2021 RMB'000
Sale of goods	(i)	2,619	–
Purchase of goods	(ii)	6,646	9,683
Receiving ancillary services	(iii)	145	10,145
Loan to a joint venture	(iv)	–	45,000
Repayment from a joint venture	(iv)	9,300	–
Interest receivable on loan to a joint venture	(iv)	901	933
Advanced to a related party	(v)	500	–
Advances from related parties	(vi)	109	–
Loan from a related party	(vi)	78,895	30,000
Repayment of loans from a related party	(vi)	83,895	–
Interest paid on loan from a related party	(vii)	706	710
Net deposits withdrawal of a related party	(viii)	(44)	(28,419)

- (i) Represent the pharmaceutical products sold to its joint venture, Jiangxi Yongfeng Kangde Pharmaceutical Company Limited (江西永豐康德醫藥有限公司).
- (ii) Mainly represent medicinal herbs (Ionicera japonica and baikal skullcap root) purchased from Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited (浙川縣福森中藥材種植開發有限公司) and steams, packaging materials 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 (浙川縣福森物資有限公司).
- (iii) Represent amounts paid and payable to Nanyang Fusen Magnesium Powder Limited (南陽福森鎂粉有限公司), Xichuan Fusen Goods and Materials Limited (浙川縣福森物資有限公司) 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, accommodation, catering and other services.
- (iv) Represent advances to/repayment by 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 six months ended 30 June 2022. As at 30 June 2022, the advances and accrued interests was RMB28,514,000 (31 December 2021: RMB36,913,000).

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

(Expressed in RMB'000 unless otherwise indicated)

23 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

- (v) Represent advances to Shenzhen Zhiyuan Shiye Limited (深圳市致凱實業有限公司) with non-interest bearing.
- (vi) Represent of non-interest bearing advances and fund received from/repaid to Henan Fusen Shiye Group Limited (河南福森實業集團有限公司).
- (vii) Represent interests of the loan paid to Henan Xichuan Rural Commercial Bank Company Limited (河南浙川農村商業銀行股份有限公司). The loan is RMB20,000,000 with a maturity period of 3 years from August 2019 and interest rate of 6.98% per annum.
- (viii) Represent net deposits placed in Henan Xichuan Rural Commercial Bank Company Limited (河南浙川農村商業銀行股份有限公司).

24 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial assets and liabilities measured at fair value

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

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

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

(Expressed in RMB'000 unless otherwise indicated)

24 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

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

	Fair value at	Fair value measurements as at		
	30 June 2022 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Other financial assets	680	680	–	–
Capped cross currency swap	2,671	–	2,671	–

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

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2022 and 31 December 2021.

25 EVENTS AFTER THE REPORTING PERIOD

On 8 July 2022, the Board has approved to grant 5,000,000 restricted share units ("RSU") under the RSU scheme to two employees, with 2,500,000 RSUs to each employee.