Fusen Pharmaceutical Company Limited
福森藥業有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1652)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB462.1 million for the year ended 31 December 2018, representing an increase of approximately 2.1% as compared with that for the year ended 31 December 2017.

- Gross profit decreased by approximately 0.2% from approximately RMB251.9 million for the year ended 31 December 2017 to approximately RMB251.3 million for the year ended 31 December 2018.

- Gross profit margin decreased from approximately 55.7% for the year ended 31 December 2017 to approximately 54.4% for the year ended 31 December 2018.

- Profit attributable to the owners of the Company was approximately RMB101.9 million for the year ended 31 December 2018 as compared to profit of approximately RMB96.8 million for the year ended 31 December 2017.

- Basic earnings per share was approximately RMB15 cents for the year ended 31 December 2018, and approximately RMB16 cents for the year ended 31 December 2017.

- The Board resolved to recommend the payment of a final dividend of RMB0.74 cents per ordinary share (final dividend of the Company for the year ended 31 December 2017: Nil), subject to the approval of the shareholders at the forthcoming annual general meeting of the Company.

FINAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Fusen Pharmaceutical Company Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

	Note	Year ended 31 December **2018**	2017
			(Note)
		RMB'000	*RMB'000*
Other comprehensive income for the year (after tax)			
Item that may be reclassified subsequently to profit of loss:			
— Exchange differences on translation of financial statements of the Company and overseas subsidiaries		**12,603**	26
Other comprehensive income, net of tax		**12,603**	26
Total comprehensive income for the year			
Attributable to:			
Equity shareholders of the Company		**114,485**	96,846
Non-controlling interests		**27**	231
Total comprehensive income for the year		**114,512**	97,077
Earnings per share			
Basic and diluted *(RMB cents)*	*7*	**15**	16

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(Expressed in Renminbi)

		As at 31 December	
	Note	**2018**	2017
			(Note)
		RMB'000	*RMB'000*
Non-current assets			
Property, plant and equipment		**154,445**	164,789
Land use rights		**116,625**	27,225
Intangible assets		**1,283**	1,483
Deferred tax assets		**4,840**	4,974
Other assets		**2,304**	–
		279,497	198,471
Current assets			
Inventories		**140,787**	100,506
Trade receivables	*9*	**120,344**	109,115
Prepayments and other receivables		**47,819**	41,515
Restricted guarantee deposits		**13,707**	26,992
Cash and cash equivalents		**561,108**	474,621
		883,765	752,749
Current liabilities			
Trade and bills payables	*10*	**137,623**	119,698
Contract liabilities		**6,165**	–
Accruals and other payables		**193,334**	235,358
Bank and other loans		**100,000**	360,000
Current taxation		**13,877**	16,922
		450,999	731,978
Net current assets		**432,766**	20,771
Total assets less current liabilities		**712,263**	219,242

	Note	As at 31 December 2018	2017 (Note)
		RMB'000	*RMB'000*
Non-current liabilities			
Deferred income		**4,472**	4,865
Bank and other loans		**90,000**	31,600
Deferred tax liabilities		**1,692**	–
		96,164	36,465
Net assets		**616,099**	182,777
Capital and reserves			
Share capital	*11*	**6,732**	1,274
Reserves		**607,203**	179,291
Total equity attributable to equity shareholders of the Company		**613,935**	180,565
Non-controlling interests		**2,164**	2,212
Total equity		**616,099**	182,777

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

NOTES TO THE FINANCIAL STATEMENTS
(Expressed in RMB’000 unless otherwise indicated)

1 ORGANISATION AND 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 Company is an investment holding company. The Group are principally engaged in manufacturing and sale of pharmaceutical products.

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

Pursuant to a group reorganisation completed on 30 March 2017 (the “Reorganisation”), the Company became the holding company of companies now comprising the Group.

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

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

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

The financial statements are prepared on the historical cost basis.

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, Financial instruments
- IFRS 15, Revenue from contracts with customers
- IFRIC 22, Foreign currency transactions and advance consideration

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, Prepayment features with negative compensation which have been adopted at the same time as IFRS 9.

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

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

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

The following table summarises the impact of transition to IFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	RMB'000
Reserves and retained earnings	
Recognition of additional expected credit losses on:	
Trade receivables	(1,470)
Related tax	220
Net decrease in reserves and retained earnings at 1 January 2018	(1,250)

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

a. *Credit losses*

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

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

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

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

b. *Transition*

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

— Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

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

(ii) IFRS 15, Revenue from contracts with customers

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

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

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

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

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

a. Timing of revenue recognition

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

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

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

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

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

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

b. *Presentation of contract assets and liabilities*

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of IFRS 15:

— "Receipts in advance from customers " amounting to RMB 6,734,000, which were previously included in accruals and other payables are now included under contract liabilities;

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

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

	Amounts reported in accordance with IFRS 15 (A)	**Hypothetical amounts under IASs 18 and 11 (B)**	**Difference: Estimated impact of adoption of IFRS 15 on 2018 (A)-(B)**
	RMB'000	*RMB'000*	*RMB'000*
Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of IFRS 15:			
CURRENT LIABILITIES			
Accruals and other payables	193,334	199,499	(6,165)
Contract liabilities	6,165	–	6,165
Line items in the reconciliation of profit before taxation to cash generated from operations for the year ended 31 December 2018 impacted by the adoption of IFRS 15:			
Profit before taxation	123,814	123,814	–
Decrease in accruals and other payables	(36,905)	(30,740)	(6,165)
Increase in contract liabilities	6,165	–	6,165

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

(iii) IFRIC 22, "Foreign currency transactions and advance consideration"

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

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

The Group's customer base is diversified. There was no customer with whom transactions have exceeded 10% of the Group's consolidated revenue in each of financial year ended 31 December 2018 and 2017.

(b) Segment information

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

4 OTHER NET INCOME

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

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Staff costs

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

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

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

(b) Other items

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

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

6 INCOME TAX EXPENSES

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

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

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

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

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

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

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

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

7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB 101,882,000 (2017: RMB 96,820,000) and the weighted average of 694,794,521 ordinary shares (2017: 600,000,000 shares*) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

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

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

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

8 DIVIDENDS

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

	2018	2017
	RMB'000	*RMB'000*
Interim dividend declared of RMB 0.54 cents (equivalent to HKD 0.62 cents) per ordinary share	**4,320**	N/A
Final dividend proposed after the end of the reporting period of RMB0.74 cents (equivalent to HKD0.86 cents) per ordinary share	**5,920**	N/A

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

9 TRADE RECEIVABLES

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

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

* At 31 December 2018, the Group's bills receivable of RMB50,494,000 (2017: RMB25,859,000) were endorsed to suppliers. As the Group has not transferred the substantial risks and rewards relating to these bills receivable, the Group's management determined not to derecognise the carrying amounts of these bills receivable and the associated trade payables settled.

Aging analysis

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

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

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

10 TRADE AND BILLS PAYABLES

Trade and bills payables are analysed as follows:

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

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

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

11 SHARE CAPITAL

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

The holders of ordinary shares as at 31 December 2018 are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company and its subsidiaries are principally engaged in manufacturing and sale of pharmaceutical products.

Industry overview

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

Product research and development

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

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

Product Sales

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

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

OUTLOOK

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

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

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

FINANCIAL REVIEW

Revenue

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

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

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

Cost of sales

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

Gross profit and gross profit margin

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

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

Other net income

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

General and administrative expenses

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

Income tax expense

Income tax primarily represents income tax payable by us under relevant PRC income tax rules and regulations. Henan Fusen Pharmaceutical Company Limited, 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%. Our effective tax rate was 17.7% and 16.6% in 2018 and 2017 respectively. The increase was primarily attributable to the provision for PRC withholding tax on dividend from Henan Fusen Pharmaceutical Company Limited.

Profit and total comprehensive income for the year

As a result of the foregoing, the profit for the year increased by approximately RMB4.8 million, or 4.9%, from approximately RMB97.1 million for the year ended 31 December 2017 to approximately RMB101.9 million for the year ended 31 December 2018. The net profit margin which is calculated as the net profit divided by the revenue for the years ended 31 December 2017 and 2018 were approximately 21.5% and 22.1%, respectively.

LIQUIDITY AND FINANCIAL RESOURCES

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

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

GEARING RATIO

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

CAPITAL COMMITMENTS

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

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

CONTINGENT LIABILITIES

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

INFORMATION ON EMPLOYEES

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

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

COMPARISON OF BUSINESS STRATEGIES WITH ACTUAL BUSINESS PROGRESS

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

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

Business strategies as stated in the Prospectus	**Actual business progress up to the date of this announcement**
Establishment of production facilities, warehouse, processing facilities	During the reporting period, the Group upgraded and optimized certain existing equipment.
Advertising and marketing of our products	Since its debut in the international capital market in 2018, the Company has gradually strengthened brand promotion through media channel such as TV to highlight its market reputation gained over the years.
Expansion of distribution and marketing network	During the reporting period, the Group adjusted the sales regime by setting up a designated department to manage distributors in order to focus on improving the efficiency of delivery of goods and collection of receivables. Meanwhile, the Group started to set up its own sales team to strengthen the development and management of medical institutions and chain pharmacies to gradually develop end-sales market.
Research and development activities	In the field of proprietary Chinese medicine products, the Group kept investing in research and development to focus on raising quality standard of its core product. As for other proprietary Chinese medicine products, the Group mainly focused on the mechanism of efficacy and effect. Also, the Group invested in research on consistency evaluation.

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

USE OF PROCEEDS

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

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

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

TREASURY POLICY

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

CAPITAL STRUCTURE

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

CHARGE ON GROUP ASSETS

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

FOREIGN EXCHANGE EXPOSURE

The Group conducts business primarily in China with most of its transactions denominated and settled in Renminbi. Currently, the Group has not entered into any foreign exchange contracts to hedge against the fluctuations in exchange rate between Renminbi and other currencies. However, the Group monitors foreign exchange exposure regularly and considers if there is a need to hedge against significant foreign currency exposure when necessary.

MATERIAL ACQUISITION AND DISPOSAL

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

EVENT AFTER THE REPORTING PERIOD

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

Upon completion of the Capital Injection, the Target Company is held as to 50% by the Covenantors and 50% by Cloud Dollar and the total registered capital of the Target Company has increased from RMB1.0 million to RMB10.0 million. As the Group has controlled the board of directors of the Target Company after completion of the Capital Injection Agreement, the Target Company has become an indirect non-wholly owned subsidiary of the Company and accordingly, the financial results of the Target Company will be consolidated into the financial statements of the Company.

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

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.

FINAL DIVIDEND

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

Subject to the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on Friday, 28 June 2019, the said final dividend will be paid in cash on 9 August 2019. Details of dividend for the year ended 31 December 2018 are set out in Note 8 to the consolidated financial statements of the Company.

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 2019 annual general meeting:

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

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

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

In order to be eligible to attend and vote at the 2019 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.

CORPORATE GOVERNANCE PRACTICE

The Company has adopted the principles and code provisions set out in the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules. The Company has fully complied with the CG Code since the date of the Listing up to the date of this announcement.

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 since the date of the Listing up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee (the "**Audit Committee**") of the Company was established on 14 June 2018. The chairman of the Audit Committee is Mr. Sze Wing Chun, the independent non-executive Director, and other members included Mr. Ho Ka Chun and Mr. Shang Lei, the independent non-executive Directors. The written terms of reference of the Audit Committee are posted on the Stock Exchange's website and on the Company's website.

The primary duties of the Audit Committee are mainly to review the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the consolidated financial statements for the year ended 31 December 2018. The final results announcement of the Group for the year ended 31 December 2018 has been reviewed by the Audit Committee.

SCOPE OF WORK OF KPMG

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2018 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The annual results announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and that of the Company (www.fusenyy.com). The annual report will be dispatched to the shareholders of the Company and will be available on the website of the Stock Exchange and that of the Company in due course.

APPRECIATION

Mr. Cao Changcheng, the chairman of the Board, would like to express his sincerest gratitude to the shareholders, customers, suppliers and subcontractors for their continuous support. He would also send his warmest thanks to all the management and staff members of the Group for their hard work and dedication.

By order of the Board
Fusen Pharmaceutical Company Limited
Mr. Cao Changcheng
Chairman and Executive Director

Hong Kong, 29 March 2019

As at the date of this announcement, the Board of the Company comprises Mr. Cao Changcheng (Chairman), Mr. Hou Taisheng, Mr. Chi Yongsheng, Ms. Meng Qingfen and Mr. Cao Dudu as executive Directors, Mr. Wang Jianhang as non-executive Director, and Mr. Sze Wing Chun, Mr. Shang Lei and Mr. Ho Ka Chun as independent non-executive Directors.