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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 2022

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB491.8 million for the year ended 31 December 2022, representing an increase of approximately 27.5% as compared to approximately RMB385.7 million for the year ended 31 December 2021.
- Gross profit increased by approximately 6.6% from approximately RMB211.1 million for the year ended 31 December 2021 to approximately RMB225.0 million for the year ended 31 December 2022.
- Gross profit margin was approximately 45.8% for the year ended 31 December 2022, representing a decrease of approximately 8.9% as compared to approximately 54.7% for the year ended 31 December 2021.
- Loss attributable to the equity shareholders of the Company was approximately RMB34.6 million for the year ended 31 December 2022 as compared to profit of approximately RMB16.6 million for the year ended 31 December 2021.
- Basic loss per share was approximately RMB5 cents for the year ended 31 December 2022 as compared to basic earnings per share was approximately RMB2 cents for the year ended 31 December 2021.
- The Board does not recommend the distribution of any final dividend for the year ended 31 December 2022 (final dividend of the Company for the year ended 31 December 2021: RMB0.34 cents)

FINAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Fusen Pharmaceutical Company Limited (the “**Company**”) announces the consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2022, together with the comparative figures for the year ended 31 December 2021.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

(Expressed in RMB'000 unless otherwise indicated)

		Year ended 31 December	
	Note	2022	2021
		RMB'000	RMB'000
Revenue	3	491,757	385,664
Cost of sales		<u>(266,736)</u>	<u>(174,531)</u>
Gross Profit		225,021	211,133
Other net income/(loss)	4	7,379	(2,815)
Selling and distribution expenses		(118,721)	(90,946)
General and administrative expenses		<u>(69,921)</u>	<u>(65,235)</u>
Profit from operations		43,758	52,137
Finance income		1,972	2,558
Finance costs		<u>(17,697)</u>	<u>(9,655)</u>
Net finance costs		<u>(15,725)</u>	<u>(7,097)</u>
Impairment on interest in a joint venture		(38,007)	(19,280)
Share of (loss)/profit of a joint venture		(11,816)	11,669
Share of loss of an associate		(9,203)	(13,638)
(Loss)/profit before taxation	5	(30,993)	23,791
Income tax	6	<u>(3,661)</u>	<u>(7,178)</u>
(Loss)/profit for the year		<u>(34,654)</u>	<u>16,613</u>

		Year ended 31 December	
	<i>Note</i>	2022	2021
		RMB'000	RMB'000
Attributable to:			
Equity shareholders of the Company		(34,605)	16,645
Non-controlling interests		(49)	(32)
		<hr/>	<hr/>
(Loss)/profit for the year		(34,654)	16,613
		<hr/> <hr/>	<hr/> <hr/>
Other comprehensive income for the year (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		1,090	(1,244)
		<hr/>	<hr/>
Other comprehensive income for the year		1,090	(1,244)
		<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income for the year		(33,564)	15,369
Attributable to:			
Equity shareholders of the Company		(33,515)	15,401
Non-controlling interests		(49)	(32)
		<hr/>	<hr/>
Total comprehensive income for the year		(33,564)	15,369
		<hr/> <hr/>	<hr/> <hr/>
(Loss)/earnings per share	7		
Basic (<i>RMB cents</i>)		(5)	2
Diluted (<i>RMB cents</i>)		(5)	2
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in RMB'000 unless otherwise indicated)

		As at 31 December	
	Note	2022	2021
		RMB'000	RMB'000
Non-current assets			
Investment property		16,497	17,605
Other property, plant and equipment		312,108	281,877
Right-of-use assets		217,637	224,157
Intangible assets		483	683
Interest in a joint venture		48,433	60,037
Interest in an associate		129,876	138,027
Deferred tax assets		5,079	5,629
Other assets		6,099	2,099
		<u>736,212</u>	<u>730,114</u>
Current assets			
Other financial assets		4,595	642
Inventories		110,649	121,845
Trade receivables	9	247,189	157,581
Prepayments and other receivables	10	103,366	148,091
Restricted bank deposit		20,151	–
Cash and cash equivalents		128,106	81,063
		<u>614,056</u>	<u>509,222</u>
Current liabilities			
Trade and bills payables	11	163,613	102,115
Lease liabilities		2,107	1,833
Contract liabilities		67,550	4,617
Accruals and other payables		255,823	219,069
Bank and other loans		225,842	160,915
Current taxation		7,147	–
Other financial liabilities		–	717
		<u>722,082</u>	<u>489,266</u>
Net current (liabilities)/assets		<u>(108,026)</u>	<u>19,956</u>
Total assets less current liabilities		<u>628,186</u>	<u>750,070</u>

	<i>Note</i>	As at 31 December	
		2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities			
Deferred income		11,323	10,508
Lease liabilities		432	1,940
Bank and other loans		–	76,000
Deferred tax liabilities		3,538	4,678
		<u>15,293</u>	<u>93,126</u>
Net assets		<u>612,893</u>	<u>656,944</u>
Capital and reserves			
Share capital	<i>12</i>	6,383	6,479
Reserves		<u>607,784</u>	<u>651,690</u>
Total equity attributable to equity shareholders of the Company		614,167	658,169
Non-controlling interests		<u>(1,274)</u>	<u>(1,225)</u>
Total equity		<u>612,893</u>	<u>656,944</u>

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 is principally engaged in manufacturing and sale of pharmaceutical products.

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.

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

(b) Basis of preparation of the financial statements

Going concern assumption

As at 31 December 2022, net current liabilities of the Group was RMB108,026,000, and loss attributable to equity shareholders was RMB34,605,000. Considering the current economic conditions, management has considered (i) the Group’s cash flow forecast for the year ending 31 December 2023; (ii) the Group’s availability of bank facilities of RMB176,100,000, from the short and long-term perspective, and maintain reasonable financing costs through appropriate financing portfolio, the board of directors is of the opinion that the Group has sufficient funds to meet its working capital commitments, expected capital expenditure and debt obligations. As a result, the consolidated financial statements of the Group for the year ended 31 December 2022 have been prepared on a going concern basis.

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

The consolidated financial statements for the year ended 31 December 2022 comprise the Company and its subsidiaries and the Group's interest in a joint venture and an associate.

The measurement basis used in the preparation of the financial statements is the historical cost except for derivatives and other financial assets measured as fair value through profit or loss ("FVPL").

(c) Changes in accounting policies

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

- Amendments to 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 developments have had a material effect on how the Group's results and financial position for the current or prior years have been prepared or presented in these consolidated financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Manufacturing products		
Shuanghuanglian Oral Solutions	236,394	222,891
Shuanghuanglian Injections	73,864	34,758
Others	158,700	128,015
	468,958	385,664
Third party products	22,799	—
	491,757	385,664

Revenue is recognised at a point in time.

During the year ended 31 December 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 RMB64,206,000 (2021: RMB51,504,000).

(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.

4 OTHER NET INCOME/(LOSS)

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Material and scrap sales (losses)/income, net	(130)	1,626
Rental income	528	574
Government grants	2,358	7,909
Net realised and unrealised gains/(losses) of listed trading securities and other financial assets at FVPL	13	(1,743)
Net realised and unrealised gains on derivative financial instruments	5,312	2,044
Net losses on disposal of other property, plant and equipment and right-of-use assets	(1,667)	(12,037)
Others	965	(1,188)
	<u>7,379</u>	<u>(2,815)</u>

5 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Staff costs

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and other benefits	84,051	68,787
Contributions to defined contribution retirement schemes	6,625	6,813
Share-based payment expenses	1,153	–
	<u>91,829</u>	<u>75,600</u>

Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated based on certain percentages of the average employee salary as agreed by the respective local municipal governments to the scheme to fund the retirement benefits of the employees. Contributions to the scheme vest immediately, there is no forfeited contribution that may be used by the Group to reduce the existing level of contribution.

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	
	2022	2021
	RMB'000	RMB'000
Cost of inventories*	270,410	175,373
Research and development costs	15,176	10,440
Depreciation of investment property and other property, plant and equipment	26,716	17,229
Depreciation of right-of-use assets	7,245	6,356
Amortisation of intangible assets	200	200
Auditors' remuneration — audit services	3,900	4,200
(Reversal)/recognition of credit losses on trade and other receivables	(4,710)	905

* Cost of inventories includes RMB55,359,000 in 2022 (2021: RMB34,778,000), relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above.

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

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

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Current tax — PRC Enterprise Income Tax Provision for the year	6,579	11,828
Over-provision in respect of previous years	(2,328)	(2,275)
	4,251	9,553
Deferred tax Origination and reversal of temporary differences	(590)	(2,375)
	3,661	7,178

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 2022 (2021: Nil) and is not subject to any Hong Kong Profits tax. Hong Kong Profits tax rate of 2022 is 16.5% (2021: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

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

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

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

	Year ended 31 December	
	2022	2021
	RMB’000	RMB’000
(Loss)/profit before taxation	<u>(30,993)</u>	<u>23,791</u>
Tax calculated at statutory tax rates applicable to profits in the respective jurisdictions	(7,748)	5,948
Tax effect of		
Preferential income tax rates applicable to a PRC subsidiary	(4,462)	(6,121)
Non-deductible expenses	2,344	221
Utilisation of deductible temporary differences not recognised in prior years	(1,361)	–
Share of loss/(profit) of a joint venture	2,954	(2,917)
Share of loss of an associate	2,301	3,409
Unused tax losses not recognised	12,800	9,108
Over-provision in respect of previous years	(2,328)	(2,275)
PRC dividends withholding tax	(839)	(195)
Income tax	<u>3,661</u>	<u>7,178</u>

7 (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 RMB34,605,000 (2021: profit of RMB16,645,000) and the weighted average of 756,074,000 ordinary shares (2021: 769,622,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2022 '000	2021 '000
Issued ordinary shares at 1 January	769,934	774,012
Effect of repurchase of shares	<u>(13,860)</u>	<u>(4,390)</u>
Weighted average number of ordinary shares at 31 December	<u><u>756,074</u></u>	<u><u>769,622</u></u>

(b) Diluted (loss)/earnings per share

The diluted loss per share for the year ended 31 December 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 year ended 31 December 2021 is based on the profit attributable to ordinary equity shareholders of the Company of RMB16,645,000 and the weighted average number of 770,313,000 ordinary shares after adjusting the effects of dilutive potential ordinary shares, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2021 '000
Weighted average number of ordinary shares at 31 December	769,622
Effect of deemed issue of shares under the Company's share option scheme	<u>691</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><u>770,313</u></u>

16,000,000 share options were granted on 19 July 2019 under share option scheme of the Company adopted on 14 June 2018 (the "Share Option Scheme"). The outstanding options were not yet exercised by the grantees as at 31 December 2022.

8 DIVIDENDS

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Interim dividend declared of RMBNil per ordinary share (2021: RMB0.57 cents (equivalent to HKD0.68 cents) per ordinary share)	–	4,389
Nil final dividend declared after the end of the reporting period (2021: RMB0.34 cents (equivalent to HKD0.42 cents) per ordinary share)	–	2,618

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

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
At 1 January	8,163	9,029
Declared	2,618	7,949
Paid	(6,959)	(8,306)
Exchange differences	636	(509)
At 31 December	4,458	8,163

9 TRADE RECEIVABLES

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Bills receivable*	177,802	101,145
Trade debtors	74,276	60,369
Less: allowance for credit loss	(4,889)	(3,933)
	69,387	56,436
	247,189	157,581

* At 31 December 2022, the Group's bills receivable of RMB51,665,000 and RMB26,911,000 (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 receivable, the Group's management determined not to derecognise the carrying amounts of these bills receivable and the associated trade payables settled.

Ageing analysis

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

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

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Current to 3 months	48,651	42,815
4 to 6 months	5,490	5,522
7 to 12 months	14,879	7,457
Over 12 months	367	642
	69,387	56,436

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 PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Receivables in connection with compensation for relocation of production facilities from local government	42,744	42,744
Dividends receivable	–	28,707
Advances to a joint venture and accrued interests	23,172	36,913
Prepayments to related parties	3,275	2,885
Prepayments for raw material and service charges	12,839	7,128
Income tax recoverable	–	437
Others	21,336	29,277
	<u>103,366</u>	<u>148,091</u>

11 TRADE AND BILLS PAYABLES

Trade and bills payables are analysed as follows:

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Bills payable	40,000	–
Trade payables		
Third parties	118,636	98,061
Amounts due to related parties	4,977	4,054
	<u>163,613</u>	<u>102,115</u>

Ageing analysis

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

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Current to 3 months	136,920	42,570
4 to 6 months	5,470	24,023
7 to 12 months	2,415	16,022
Over 12 months	18,808	19,500
	<u>163,613</u>	<u>102,115</u>

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

12 SHARE CAPITAL

	2022		2021	
	No. of shares	Amount <i>RMB'000</i>	No. of shares	Amount <i>RMB'000</i>
Authorised-ordinary shares of HKD0.01 each:				
At 1 January and 31 December	<u>2,000,000,000</u>	<u>16,354</u>	<u>2,000,000,000</u>	<u>16,354</u>
Ordinary shares, issued and fully paid:				
At 1 January	769,934,000	6,479	774,012,000	6,513
Shares issued under restricted share unit scheme	5,000,000	43	–	–
Cancellation of treasury shares	<u>(16,495,000)</u>	<u>(139)</u>	<u>(4,078,000)</u>	<u>(34)</u>
At 31 December	<u>758,439,000</u>	<u>6,383</u>	<u>769,934,000</u>	<u>6,479</u>

The holders of ordinary shares as at 31 December 2022 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

Overview

In 2022, the Group's financial performance showed operating losses, mainly due to the operating losses of its associate and joint venture, as well as impairment provisions for its investment in the joint venture. However, the Group's own major operating company remained profitable. The COVID-19 pandemic has caused significant changes in the market, representing lasting and profound ramifications. Coupled with the ongoing implementation of the centralised procurement policies by the government, the market saw an increasingly intensified competition. The Group recognised that its long-term stable development would rest upon a number of core factors, including a stable and sustainable sales channel, a safe and efficient production base, a diversified product pipeline and an inventory of marketable products. The Group commenced the production activities at its production base in Xichuan County, Henan Province upon completion of its upgrading and transformation. The new plant and production lines enhanced our production efficiency, which, apart from increasing the Group's production output, also improved the Group's producing capacity for new products. In terms of marketing and sales, the Group continued to adjust and optimize its sales team, expand its coverage in untapped markets, to build and improve its corporate brand image. The Group continued to increase its investments in research and development, with a higher number of research and development projects and expenses than those in 2021. For instance, the research and development costs amounted to approximately RMB15.2 million for the year ended 31 December 2022. While focusing on establishing development projects for Class 3 and 4 chemical drugs, the Company involved both active pharmaceutical ingredients and drug preparations for certain products to ensure their competitive edge over costs. By initiating 12 new projects for active pharmaceutical ingredient and drug preparations in 2022, the Company currently has a total of 14 projects for active pharmaceutical ingredient and drug preparations in different stages of research and development, among which two projects are currently under review. Furthermore, the metformin hydrochloride sustained-release tablet project passed the generic drug consistency evaluation in April 2022, while the flunarizine hydrochloride capsules passed the evaluation in March 2023.

In terms of social responsibility, the Group continued to provide financial assistance to students in impoverished areas. At the critical moment amid the raging pandemic at the end of 2022, all employees of the Group worked overtime to ensure a stable supply of epidemic prevention materials and products.

Business Review

The Group's revenue in 2022 was approximately RMB491.8 million, representing an increase of 27.5% compared to the corresponding period in 2021. The Group's gross profit was approximately RMB225.0 million, representing an increase of 6.6% compared to the corresponding period in 2021, while our gross profit margin decreased from 54.8% in 2021 to 45.8% in 2022. The growth in the Group's revenue was not only attributable to the Group's traditional proprietary cold and fever drugs but also other product lines. The decrease in the gross profit margin is mainly due to the increase in depreciation and purchase cost of raw material. The Group's selling and distribution expenses in 2022 were approximately RMB118.7 million, representing an increase of 30.6% compared to the corresponding period in 2021, which was mainly due to an increase in revenue. The Group's general and administrative expenses in 2022 were approximately RMB69.9 million, representing an increase of RMB4.7 million compared to the corresponding period in 2021, mainly due to the Group's more investments in research and development. The Group's finance costs increased from RMB9.7 million in 2021 to RMB17.7 million in 2022, mainly due to interest expenses and exchange losses on borrowings from banks denominated in foreign currencies. Due to fluctuations in the RMB exchange rate, the Group incurred unrealized exchange losses on the carrying amount of its borrowings, which were recognized in accordance with accounting standards. The Group's losses in 2022 were mainly derived from the operating losses of its joint venture, being Jiangxi Yongfeng Kangde Pharmaceutical Company Limited ("**Jiangxi Yongfeng Kangde**"), as well as the operating losses of its associate, being Weihai Rensheng Pharmaceutical Group Company Limited ("**Weihai Rensheng**"). Due to the national centralised procurement policies, Jiangxi Yongfeng Kangde recorded a significant decline in sales of its core product Cephadrine in 2022, while impairment provisions were made for inventories that were close to expiry at the end of 2022. Due to the operating losses of Jiangxi Yongfeng Kangde, the Group evaluated its long-term equity investment at the end of 2022 and made a provision for the corresponding impairment losses. The operating losses of Weihai Rensheng were mainly because sales increase slowly and weakly. Despite the said operating losses, Henan Fusen, as our core business segment, continued to maintain profitability.

Outlook

Despite the challenges in 2022, the Group remains confident about the future. Since the end of 2022 to the beginning of 2023, the Group has been operating at full capacity to meet the exponential growth in the short-term market. At the end of the pandemic prevention and control, it is expected that the demand for cold and fever drugs will return to a normal level. The Group's updated and transformed new production line has expanded its production capacity and enhanced production efficiency, which will meet the market demand.

In terms of new product development, the Company believes that the full implementation of the Marketing Authorisation Holder (MAH) system and the national centralised procurement of drugs present opportunities for the Company to enrich its product mix. The Company will continue to increase investments, while selecting marketable Class 3 and Class 4 chemical drugs for project establishment, among which 5 to 10 new products are expected to be included to the project establishment in 2023. Meanwhile, to ensure the cost advantage of chemical drugs, the Company plans to build an active pharmaceutical ingredient production base this year, which will reinforce the competitive strengths of the Company's future products when participating in the national centralised procurement. In terms of research and development project management, in addition to collaboration with leading CRO companies, the Company will continue to strengthen the construction of internal research and development platforms. Jiaheng Pharmaceutical, a wholly-owned subsidiary of the Company, will put its research and development laboratory into use in the second quarter of this year. The Company plans to continue hiring research and development teams this year, gradually forming a research development model combining the internal and external collaborative research efforts. In addition to chemical drug projects, the Company plans to establish projects for one new Chinese drug and three classic Chinese drug formulas this year, all of which are under assessment prior to project establishment.

In terms of product sales, the Company will continue to redouble its efforts in developing untapped markets, by increasing the sales representatives and distributors to cover as many untapped areas as possible. In terms of sales structure, besides maintaining the market share of core products, the Company will also strengthen sales and promotion efforts for its second-tier product lines. The Company's Nicardipine Hydrochloride Injection projects, which resumed production and was launched in the market in 2022, reported sales income exceeding RMB18.9 million.

The joint venture Jiangxi Yongfeng Kangde is expected to resume growth this year, with sales of its core product, Cephadrine, to bottom out and rebound.

The associate Weihai Rensheng is expected to turn losses into profits.

In terms of social responsibility, the Company will follow the national trend of low-carbon economy by installing photovoltaic panels on the roofs of its existing factories to utilise more renewable energy for power generation, which will help reduce carbon emissions and lower electricity costs.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by approximately RMB106.1 million, or 27.5%, from approximately RMB385.7 million for the year ended 31 December 2021 to approximately RMB491.8 million for the year ended 31 December 2022. The following table sets out a breakdown of the Group's revenue generated from principal products during the years ended 31 December 2022 and 2021:

	Year ended 31 December				
	2022		2021		
	<i>Revenue</i>	<i>% of</i>	<i>Revenue</i>	<i>% of</i>	<i>Growth</i>
	<i>RMB'000</i>	<i>total</i>	<i>RMB'000</i>	<i>total</i>	<i>rate %</i>
<i>Manufacturing products</i>					
Shuanghuanglian Oral Solutions	236,394	48.1%	222,891	57.8%	6.1%
Shuanghuanglian Injections	73,864	15.0%	34,758	9.0%	112.5%
Flunarizine Hydrochloride					
Capsules	21,064	4.3%	20,647	5.4%	2.0%
Compound Ferrous Sulfate					
Granules	20,682	4.2%	21,648	5.6%	-4.5%
Other Products	116,954	23.8%	85,720	22.2%	36.4%
Subtotal	468,958	95.4%	385,664	100.0%	21.6%
<i>Third-party products</i>	22,799	4.6%	–	0.0%	N/A
Total	491,757	100.0%	385,664	100.0%	27.5%

The increase in revenue of the Group was mainly due to the increase in the sales of Shuanghuanglian Oral Solutions, Shuanghuanglian Injections, other products and third party products. The third party products comprise of medicine produced by other pharmaceutical companies. The Group sells those products through its own sales team.

Cost of sales

Cost of sales increased by approximately RMB92.2 million, or 52.8%, from approximately RMB174.5 million for the year ended 31 December 2021 to approximately RMB266.7 million for the year ended 31 December 2022. Such increase was generally in line with the increase in revenue.

Gross profit and gross profit margin

Gross profit increased by approximately RMB13.9 million from approximately RMB211.1 million for the year ended 31 December 2021 to approximately RMB225.0 million for the year ended 31 December 2022. The Group's profit margin was approximately 45.8% for the year ended 31 December 2022, representing a decrease of approximately 8.9% as compared to approximately 54.7% for the year ended 31 December 2021, which was mainly due to the increase in depreciation and purchase cost of raw material.

Other net income/(loss)

Our other net income in 2022 primarily consists of net realised and unrealised gains on derivative financial instruments, government grants and others. The other net income increased by approximately RMB10.2 million from the other net loss of approximately RMB2.8 million for the year ended 31 December 2021 to the other net income of approximately RMB7.4 million for the year ended 31 December 2022, primarily due to the government grants and net realised and unrealised gains on derivative financial instruments.

Selling and distribution expenses

Our selling and distribution expenses primarily consist of wages and salaries, logistics charges, advertisement expenses, commission fee, service fee, business travel expenses and other miscellaneous expenses. The selling and distribution expenses increased by approximately RMB27.8 million, or 30.6%, from approximately RMB90.9 million for the year ended 31 December 2021 to approximately RMB118.7 million for the year ended 31 December 2022, mainly represented by the approximately RMB27.8 million increase in service fee.

General and administrative expenses

Our general and administrative expenses primarily consist of wages and salaries, consultant, research and development cost, depreciation and others. The increase of the general and administrative expenses by approximately RMB4.7 million, or 7.2%, from approximately RMB65.2 million for the year ended 31 December 2021 to approximately RMB69.9 million for the year ended 31 December 2022, was mainly due to the increase in research and development costs.

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 RMB7.1 million for the year ended 31 December 2021 to approximately RMB15.7 million for the year ended 31 December 2022, mainly attributable to the increase in net foreign exchange loss and interest on bank loans.

Impairment on interest in a joint venture

Impairment on interest in a joint venture was arising from Jiangxi Yongfeng Kangde. The impairment on interest in a joint venture increased from approximately RMB19.3 million for the year ended 31 December 2021 to approximately RMB38.0 million for the year ended 31 December 2022. Due to Jiangxi Yongfeng Kangde took operation loss in 2022, the management assessed the future profitability and receivables recoverability of Jiangxi Yongfeng Kangde as at 31 December 2022. As a result, the Group considered the carrying amount of the investment in a joint venture was impaired at 31 December 2022.

Share of (loss)/profit of a joint venture

Share of loss of a joint venture represented the Group interests decrease by approximately RMB23.5 million from approximately RMB11.7 million profit in 2021 to approximately RMB11.8 million loss in 2022. The Group interests is due from Jiangxi Yongfeng Kangde, whose 35.8% shares are owned by the Group. Such loss of Jiangxi Yongfeng Kangde was mainly due to a centralized procurement policy and the decrease in sales of its major product, Kefadim, and recognition of write-down of inventories as a result.

Share of loss of an associate

Share of loss of associate represented the Group interests decrease by approximately RMB4.4 million from approximately RMB13.6 million loss in 2021 to approximately RMB9.2 million loss in 2022. The Group interests is due from Weihai Rensheng, whose 34% shares are owned by the Group.

Income tax expenses

Income tax primarily represents income tax payable by us under relevant PRC income tax rules and regulations. Henan Fusen, our wholly-owned subsidiary, was certified as a High New Technology Enterprise in Henan province and has been entitled to a preferential income tax rate of 15%. Income taxes decreased from approximately RMB7.2 million in 2021 to approximately RMB3.7 million. The decrease is mainly due to the current tax shrank arising from less taxable profit.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the Group had net current liabilities of approximately RMB108.0 million (2021: net current assets of approximately RMB20.0 million) and cash and cash equivalents of approximately RMB128.1 million (2021: RMB81.1 million).

As at 31 December 2022, the Group's total equity attributable to shareholders of the Company amounted to approximately RMB614.2 million (2021: RMB658.2 million), and the Group's total debt amounted to approximately RMB225.8 million (2021: RMB236.9 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 2022, the gearing ratio of the Group, which is calculated as the total debt divided by the total equity, was approximately 36.8% (2021: 36.1%). The total debt represents the interest-bearing bank and other loans as at the year end.

CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2022 and 2021 not provided for in the financial statements were as follows:

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for	17,634	1,819

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2022 (2021: Nil).

INFORMATION ON EMPLOYEES

As at 31 December 2022, the Group employed 1,159 employees (2021: 1,243 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 2022, the total staff cost (including Directors' emoluments, contributions to defined contribution retirement schemes, bonus and other benefits, share-based payment expenses) amounted to approximately RMB91.8 million (2021: RMB75.6 million).

TREASURY POLICY

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

CAPITAL STRUCTURE

The Group's capital structure consists of equity interest attributable to shareholders and liabilities. As at 31 December 2022, the Group's equity interest attributable to shareholders amounted to approximately RMB612.9 million (31 December 2021: approximately RMB656.9 million) in aggregate and total liabilities amounted to approximately RMB737.4 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.

CHARGE ON GROUP ASSETS

As at 31 December 2022, none of the Group's bank borrowings were secured by the Group's assets. As at 31 December 2021, certain bank borrowings of the Group were secured by the Group's land use rights, which had an aggregate carrying amount of RMB87.1 million.

FOREIGN EXCHANGE EXPOSURE

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

EVENT AFTER THE REPORTING PERIOD

There is no significant event subsequent to 31 December 2022 and up to the date of this announcement which would materially affect the Group's operations and financial performance.

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 directors of the Company do not recommend the payment of a final dividend in respect of the year ended 31 December 2022 (2021: RMB0.34 cents).

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 Rules Governing the listing of securities on the Stock Exchange (the "**Listing Rules**"). The Company has complied with all applicable code provisions set out in the Code, except for code provision C.6.1 of 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry, all Directors have fully complied with the required standards set out in the Model Code during the year ended 31 December 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 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. Among those repurchased shares, 16,495,000 shares were cancelled during the year ended 31 December 2022, and 229,000 Shares were not yet cancelled as at 31 December 2022. The issued share capital of the Company was reduced by the par value thereof. Details of the repurchases of Shares during the year ended 31 December 2022 were as follows:

Month of repurchase	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate consideration (excluding expenses) HKD'000	Number of shares cancelled	Number of treasury shares
January 2021	500,000	4.75	4.75	2,375	–	4,078,000
May 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
	<u>5,612,000</u>			<u>8,968</u>	<u>(4,078,000)</u>	
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
	<u>11,612,000</u>			<u>12,080</u>	<u>(16,495,000)</u>	

The repurchase of shares was made by the Directors, pursuant to the general mandate granted by the Shareholders at the respective annual general meeting 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 year ended 31 December 2022 and up to the date of this announcement.

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. Lee Kwok Tung, Louis and Dr. To Kit Wa, 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 2022. This final results announcement of the Group for the year ended 31 December 2022 has been reviewed by the Audit Committee.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed 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. The work performed by KPMG in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by the auditor on this announcement.

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, 28 March 2023

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 Zhiming (formerly known as Mr. Cao Dudu) as executive Directors, and Mr. Sze Wing Chun, Mr. Lee Kwok Tung, Louis and Dr. To Kit Wa as independent non-executive Directors.