石四藥集團有限公司
SSY Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2005)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of SSY Group Limited (the "Company"), I hereby present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018.

I. RESULT AND DIVIDEND DISTRIBUTION

During 2018, the consolidation effect revealed in the intravenous infusion solutions industry. Leading enterprises expanded their market shares, and product prices showed a steady growth. The Company seized this historic development opportunity by taking its own advantages in scale, quality and brand, actively expanding its market, improving its product mix, and expediting the development and launch of new products. Leveraging on the significant enhancement of operational strength, we reached a historic high in terms of our operating results, and continued to maintain its leading position as the fastest-growing company in the intravenous infusion solutions industry.

During the year, the Group achieved a revenue of HK$4,181 million (or approximately RMB3,539 million), representing an increase of 35.9% (or 33.0% in RMB) and the gross profit margin increased by 3.6 percentage point compared to last year. The net profit was HK$912 million (or approximately RMB772 million), representing an increase of 37.2% (or 34.2% in RMB) compared with last year.

The Board resolved to pay a final dividend of HK$0.05 per share on 27 May 2019 to the shareholders named in the register of members of the Company on 14 May 2019, which represented an increase of 25% compared to last year. The total amount to be distributed for the year is HK$271 million, representing an increase of 31.7% compared with last year.

II. BUSINESS REVIEW

Revenue

For the year ended 31 December 2018, the revenue of the Group amounted to approximately HK$4,180,788,000, representing an increase of 35.9% as compared to HK$3,076,369,000 in last year. A breakdown of the revenue of the Group for the year ended 31 December 2018 is set out as follows:

	2018		2017		
	Sales	**Percentage of sales**	Sales	Percentage of sales	Increase
	HK$'000	***%***	*HK$'000*	*%*	*%*
Intravenous infusion solution and others	**4,026,403**	**96.3**	2,943,560	95.7	36.8
(Including: Non-PVC soft bag & upright soft bag infusion solution	**2,412,761**	**57.7**	1,873,669	60.9	28.8
PP plastic bottle infusion solution	**814,391**	**19.5**	589,999	19.2	38.0
Glass bottle infusion solution	**468,655**	**11.2**	320,767	10.4	46.1
Others)	**330,596**	**7.9**	159,125	5.2	107.8
Medical materials	**154,385**	**3.7**	132,809	4.3	16.2
Total	**4,180,788**	**100**	3,076,369	100	35.9

(1) Sales of Products

During the year, the Company put a greater effort into business development, coordinating the development of end market. The Company also attracted sales and marketing professionals to strengthen its after-sales services and its market share. The Company further achieved steady development in its national market development. The number of major provincial markets with annual sales exceeding RMB100 million further increased to 14 from 10 last year with a significant increase in market penetration, laying a market foundation for the Company's future expansion of its new products.

Production and sales of intravenous infusion solutions, the Company's leading products, were thriving. During the year, the sales volume reached 1,460 million bottles/bags, representing an increase of 12.5% compared to the corresponding period of last year, in particular, upright soft bags achieved the most significant growth, which represented a year-on-year increase of 29.9%. With the introduction of new therapeutic infusion solution products into the market, the proportion of sales of therapeutic infusion solutions began to rise rapidly. The expansion in the sales of therapeutic infusion solutions has become the main driver for the improvement of the Company's product mix.

In addition to maintaining sustained growth in the domestic market, the Group also steadily accelerated its international business. During the year, foreign trade sales amounted to RMB114 million, representing an increase of 20.7%.

Production and sales volume of small liquid injections products in ampoule started to increase rapidly. In 2018, the sales exceeded RMB100 million for the first time, representing a year-on-year increase of 7.5 times. With more production approvals obtained, the key issue restricting the utilization rate of production lines of small liquid injections ampoule are gradually being resolved. In near future, production of small liquid injections in ampoule will be realized on a large scale, and become one of the new growth points of the Company's results.

(2) Research and Development of New Products

Technological innovation capabilities have been further enhanced, gradually establishing a comprehensive, scientific and clear technological innovation system. In 2018, the Company was successively recognized by the National Development and Reform Commission and other ministries/commissions as the National Enterprise Technology Centre and by the Ministry of Industry and Information Technology and the Ministry of Finance as the National Technology Innovation Enterprise. The Company's national-level innovation platforms marked its excellent capability and level of technological innovation which allowed it to successfully be part of the "national team".

There has been continuous achievements from new innovations. During the year, a total of 48 registrations were completed, among which there were 4 registrations for type 4 new generic drugs and one registration for type 2 new drug; the Company was granted approval for generic drug production and registration for a total of 15 drugs, among which Moxifloxacin Hydrochloride and Sodium Chloride Injection, the first new antibiotic product approved in China for use in soft bag packaging, was included in the China National Essential Drug List and will quickly become a leading product for the growth of the Company's business performance. In addition, Hemofiltration Solution and Hemofiltration Basic Replacement Fluid, being the second in China approved for hemodialysis, will be two crucial products for the Company to enter the hemofiltration market with plenty of room for market growth. Balanced Salt Solution (Irrigating) was used in ophthalmic operations for irrigating and rinsing, and was the first generic product in the domestic market. The 4 liquid injection products in polypropylene ampoule for small-volume intravenous infusion, including Ambroxol, potassium chloride and sodium chloride further enriched the Company's product lines in polypropylene ampoule packaging.

(3) Development of Projects

To satisfy the market demand, the Company constructed the new production line for surgical soft bag intravenous infusion solution in sterile package, and obtained the GMP certification to commence operation during the year. The production line dedicated for large-volume (2,000ml to 4,000ml) soft bag infusion is under construction, and is expected to be ready for production in May 2019. By speeding up the construction of pharmaceutical research & development platform and support projects for pilot-run and industrialized production, they will be ready to use in year 2019.

For the bulk pharmaceuticals project under Hebei Guangxiang Pharmaceutical Co., Ltd., the construction of phase one of the project has been smooth. The project focuses on the production of chemical bulk pharmaceuticals such as caffeine. The overall construction progress of the project has entered the final stage, and the project is expected to be ready for trial run in April 2019.

III. PROSPECTS FOR DEVELOPMENT

Looking ahead for year 2019, under the immensely complex economic conditions in China and numerous potential adverse factors, the overall performance of pharmaceutical industry may be affected by uncertainties in relation to more policy changes brought by “4+7” centralized procurement. In terms of intravenous infusion solution industry, upon industry consolidation, it is expected the environment in which stronger side always enjoys superiority remains unchanged, which fosters the development of leading enterprises. The Company will exert all efforts to capture the historic growth opportunity by expanding its market share, improving its product mix, boosting the sales of approved new products and raising the proportions of the therapeutic infusion solutions in production and sales. These help strengthening the Company’s leading position in the intravenous infusion solutions industry.

Sales for new therapeutic products such as Moxifloxacin Hydrochloride Sodium Chloride Injection, Sodium Acetate Ringer and Ambroxol in upright soft bags will be realized on a large scale. The production and sales of new products are targeted to achieve robust development in year 2019 by developing the sales scale of these therapeutic infusion products to reach the level of RMB100 million, and become the main driving force for the growth of the Company’s result.

The annual sales target of intravenous infusion solutions is more than 1,600 million bottles/bags. We will further enhance the production efficiency, and exhaust every means to meet the needs under market expansion.

Regarding the research and development of new products, the Company will adhere to the new products development idea of “combining generic drugs and innovative drugs” with injection as the basis, reinforcing the Company’s technological and product advantages in the intravenous infusion solutions industry of China. Besides, we will comprehensively promote the development of the new products for therapeutic injections, and focus on various fields including treatment of chronic diseases and circulatory systems, emergency anesthesia therapy, antipyretic and analgesic therapy, as well as the new anti-infective therapy. We expect to obtain approximately 11 production approvals for injection this year.

The Group intends to gradually create a product series of high-end anti-infective intravenous infusion solutions focusing on Moxifloxacin Hydrochloride Sodium Chloride Injection and Levornidazole and Sodium Chloride Injection (type 2.1 innovative drug in China awaiting approval), and create a product series in the respiratory field including Bromhexine Hydrochloride Injection, Ambroxol Hydrochloride products and Doxofylline for Injection. Hemodialysis and peritoneal product series will form the Company’s product portfolio in the field of kidney disease and dialysis. Meanwhile, to seize high-end market, we will further optimize the product line of polypropylene plastic ampoules. Through developing new microspheres, Liposomal High-end Injection, Lyophilized Powder Injection, Dual-chamber Bag, Multi-chamber Bag and Aseptic Filling Injection, the Company gradually establishes its leading position in injections in terms of high-end drug delivery system and innovative packaging form.

We will continue to conduct various bulk pharmaceuticals and oral preparations projects, which include AND-9 innovative drug under type 1 chemical drug and Miriplatin innovative drug under type 2 chemical drug. We will complete the registration for the study on terbutaline spray and explore the market in the area of new respiratory formulations. Meanwhile, we will complete the development for registration of the WHO recommended oral rehydration salts III for children, and gradually entered the children's oral medication market. We will also put strenuous efforts in the development of innovative drugs which are not yet meeting clinical criteria, in order to create the third growth pole for the Company's oral preparations.

The target for the pharmaceutical project under Hebei Guangxiang Pharmaceutical Co. Ltd. is to obtain the GMP certification within the first half of 2019 and start production in the second half of the year. During the year, the mass production of bulk pharmaceuticals including caffeine, theophylline, aminophylline, metronidazole and nifedipine will be achieved with all technical financial indicators meeting the expected levels. Meanwhile, the submission of certification materials for the FDA of the United States will be completed within the year, to make preparation of development into the international market.

We are full of confidence on the future development of the Company. Leveraging on the competitive edges on our scale, quality and lean management in the industry, our leading position in the industry of intravenous infusion solution products will be further strengthened despite strong market competition. We are committed to bringing satisfactory return to our investors.

I would like to take this opportunity to express our gratitude to our investors and all staff of the Group for their support to the development of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 HK$'000	2017 HK$'000
Revenue	3	**4,180,788**	3,076,369
Cost of sales		**(1,574,415)**	(1,269,181)
Gross profit		**2,606,373**	1,807,188
Other income		**73,389**	6,397
Selling and distribution costs		**(1,230,047)**	(656,089)
General and administrative expenses		**(336,260)**	(306,195)
Profit from operations		**1,113,455**	851,301
Finance income		**16,657**	3,430
Finance costs		**(50,969)**	(57,356)
Finance costs — net	4(a)	**(34,312)**	(53,926)
Profit before taxation	4	**1,079,143**	797,375
Income tax	5	**(164,524)**	(133,649)
Profit for the year		**914,619**	663,726
Other comprehensive income for the year, net of nil tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency		**(240,679)**	262,707
Other comprehensive income for the year		**(240,679)**	262,707
Total comprehensive income for the year		**673,940**	926,433

	Note	**2018**	2017
		HK$'000	*HK$'000*
Profit attributable to:			
Equity shareholders of the Company		**911,774**	664,719
Non-controlling interests		**2,845**	(993)
Profit for the year		**914,619**	663,726
Total comprehensive income attributable to:			
Equity shareholders of the Company		**679,602**	926,894
Non-controlling interests		**(5,662)**	(461)
Total comprehensive income for the year		**673,940**	926,433
Earnings per share			
— Basic	*6(a)*	**HK$0.3044**	HK$0.2337
— Diluted	*6(b)*	**HK$0.2999**	HK$0.2282

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	Note	**31 December 2018** *HK$'000*	31 December 2017 *HK$'000*
Non-current assets			
Property, plant and equipment		**2,879,018**	2,548,591
Land use rights		**272,004**	318,258
Intangible assets		**499,056**	516,858
Deferred tax assets		**9,139**	9,025
Fixed deposits		**114,129**	—
		3,773,346	3,392,732
Current assets			
Inventories		**422,504**	397,680
Trade and bills receivables	*7*	**1,271,424**	1,230,685
Prepayments, deposits and other receivables		**216,081**	137,426
Pledged bank deposits and time deposits		**252,671**	58,104
Cash and cash equivalents		**902,062**	687,319
		3,064,742	2,511,214
Assets held for sale		**42,657**	—
		3,107,399	2,511,214
Current liabilities			
Borrowings		**448,383**	900,356
Trade payables	*8*	**148,505**	193,589
Contract liabilities	*1*	**32,659**	—
Advance receipts from customers	*1*	**—**	20,689
Accruals and other payables		**720,031**	342,278
Income tax payable		**49,375**	43,388
		1,398,953	1,500,300
Net current assets		**1,708,446**	1,010,914
Total assets less current liabilities		**5,481,792**	4,403,646

	Note	**31 December 2018** **HK$'000**	31 December 2017 HK$'000
Non-current liabilities			
Borrowings		**1,046,119**	848,353
Deferred tax liabilities		**17,974**	26,169
Deferred revenue		**39,453**	42,382
		1,103,546	916,904
NET ASSETS		**4,378,246**	3,486,742
CAPITAL AND RESERVES	*9*		
Share capital		**67,088**	64,241
Reserves		**4,171,344**	3,411,117
Total equity attributable to equity shareholders of the Company		**4,238,432**	3,475,358
Non-controlling interests		**139,814**	11,384
TOTAL EQUITY		**4,378,246**	3,486,742

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies hereunder.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs 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:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(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.

HK (IFRIC) 22 does not have a material effect on how the Group's results and financial position for the current or prior period have been prepared or presented in these financial statements.

(i) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 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 HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group assessed that the cumulative effect of initial application was not material. Therefore no adjustment to the opening equity at 1 January 2018 was made. Comparative information continues to be reported under HKAS 39.

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

a. Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

There is no material impact on the carrying amounts of the assets on adoption of HKFRS 9.

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts, if any. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 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 HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost. The Group assessed that such change in accounting policy does not have a significant impact on the financial statements.

c. *Transition*

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

— Information relating to comparative periods has not been restated. The information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

— The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group).

(ii) *HKFRS 15, Revenue from contracts with customers*

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

HKFRS 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 as the cumulative effect of initial application was immaterial, no adjustment was made to the opening balance of equity at 1 January 2018. Comparative information has not been restated and continues to be reported under HKASs 11 and 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

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

a. *Presentation of contract liabilities*

Under HKFRS 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, "Advance receipts from customers" amounting to HK$32,659,000 as at 31 December 2018 are now included in "Contract liabilities".

2. Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified two reportable segments, namely intravenous infusion solution and others and medical materials. No operating segments have been aggregated to form the reportable segments.

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets. Unallocated assets mainly comprise corporate cash. Segment liabilities include operating liabilities. Unallocated liabilities mainly comprise corporate borrowings.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is profit from operations.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

	2018			
	Intravenous infusion solution and others *HK$'000*	**Medical materials** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Disaggregated by timing of revenue recognition				
Point in time	**4,020,187**	**154,385**	**—**	**4,174,572**
Over time *(note)*	**6,216**	**—**	**—**	**6,216**
Revenue from external customers	**4,026,403**	**154,385**	**—**	**4,180,788**
Inter-segment revenue	**25,587**	**164,452**	**—**	**190,039**
Reportable segment revenue	**4,051,990**	**318,837**	**—**	**4,370,827**
Operating profit/(loss)/segment results	**1,108,917**	**22,896**	**(18,358)**	**1,113,455**
Finance income	**16,436**	**219**	**2**	**16,657**
Finance costs	**(26,543)**	**(1,027)**	**(23,399)**	**(50,969)**
Profit/(loss) before taxation	**1,098,810**	**22,088**	**(41,755)**	**1,079,143**
Income tax	**(159,287)**	**(5,237)**	**—**	**(164,524)**
Reportable segment profit/(loss) for the year	**939,523**	**16,851**	**(41,755)**	**914,619**
Amortisation of land use rights	**6,494**	**385**	**—**	**6,879**
Depreciation of property, plant and equipment	**240,133**	**17,777**	**590**	**258,500**
Amortisation of intangible assets	**13,237**	**5,364**	**—**	**18,601**
Impairment of goodwill	**6,206**	**—**	**—**	**6,206**
Impairment of intangible assets	**19,342**	**—**	**—**	**19,342**
Provision for impairment of receivables	**1,401**	**56**	**—**	**1,457**
Total assets/reportable segment assets	**6,460,123**	**364,666**	**55,956**	**6,880,745**
Additions to non-current assets	**781,826**	**11,992**	**—**	**793,818**
Total liabilities/reportable segment liabilities	**1,645,444**	**59,772**	**797,283**	**2,502,499**

	2017			
	Intravenous infusion solution and others *HK$'000*	Medical materials *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Disaggregated by timing of revenue recognition				
Point in time	2,937,480	132,809	—	3,070,289
Over time *(note)*	6,080	—	—	6,080
Revenue from external customers	2,943,560	132,809	—	3,076,369
Inter-segment revenue	5,505	148,769	—	154,274
Reportable segment revenue	2,949,065	281,578	—	3,230,643
Operating profit/(loss)/segment results	859,244	9,909	(17,852)	851,301
Finance income	3,089	341	—	3,430
Finance costs	(43,841)	(2,154)	(11,361)	(57,356)
Profit/(loss) before taxation	818,492	8,096	(29,213)	797,375
Income tax	(128,067)	(5,582)	—	(133,649)
Reportable segment profit/(loss) for the year	690,425	2,514	(29,213)	663,726
Amortisation of land use rights	5,985	376	—	6,361
Depreciation of property, plant and equipment	219,536	15,803	517	235,856
Amortisation of intangible assets	9,786	5,249	—	15,035
Write-off of internally generated research and development costs	6,906	—	—	6,906
Provision for/(reversal of) impairment of receivables	76	(100)	—	(24)
Total assets/reportable segment assets	5,485,593	372,497	45,856	5,903,946
Additions to non-current assets	340,949	35,784	—	376,733
Total liabilities/reportable segment liabilities	1,527,923	84,569	804,712	2,417,204

Note: Revenue recognised over time primarily include service income and rental income.

3. Revenue

The Group derives revenue principally from the sale of finished medicines of mainly intravenous infusion solution to hospitals and distributors, bulk pharmaceutical products and medical materials.

(i) Disaggregation of revenue

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

	2018	2017
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregation by major products or service lines		
— Sales of pharmaceutical products	**4,017,162**	2,941,892
— Sales of medical materials	**151,169**	124,448
— Services income	**6,041**	3,621
— Sales of raw materials and by-products	**6,241**	3,949
	4,180,613	3,073,910
Revenue from other sources		
— Rental income	**175**	2,459
	4,180,788	3,076,369
Disaggregated by geographical location of customers		
— The PRC	**4,046,465**	2,967,440
— Other countries	**134,323**	108,929
	4,180,788	3,076,369

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 2.

The geographical analysis on revenue above includes rental income from external customers in the PRC for the year ended 31 December 2018 of HK$175,000 (2017: HK$2,459,000). The directors have determined that no geographical segment information of specified non-current assets is presented as over 95% of the non-current assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

For the year ended 31 December 2018, no customer with whom transactions have exceeded 10% of the Group's revenue.

4 Profit before taxation

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

(a) Finance income and costs

	2018	2017
	HK$'000	*HK$'000*
Finance income:		
— Interest income on bank deposits	**(13,412)**	(3,430)
— Net foreign exchange gain	**(3,245)**	—
Finance income	**(16,657)**	(3,430)
Finance costs:		
— Interest expense of borrowings	**53,154**	55,979
— Other bank charges	**—**	648
— Net foreign exchange loss	**—**	729
	53,154	57,356
Less: Interest expense capitalised into qualifying assets*	**(2,185)**	—
Finance costs	**50,969**	57,356
Finance costs — net	**34,312**	53,926

* During the year ended 31 December 2018, the borrowing costs have been capitalised at a rate of 4.11% per annum.

(b) Staff costs

	2018	2017
	HK$'000	*HK$'000*
Contributions to defined contribution retirement plan	**44,830**	33,284
Salaries, wages and other benefits	**385,225**	337,348
	430,055	370,632

(c) Other items

	2018	2017
	HK$'000	*HK$'000*
Amortisation[#]		
— land use rights	**6,879**	6,361
— intangible assets	**18,601**	15,035
Less: Amount capitalised as development costs	**(923)**	(741)
	24,557	20,655
Depreciation[#]	**258,500**	235,856
Impairment/(reversal of impairment) of		
— trade and bills receivables	**1,585**	(126)
— intangible assets	**19,342**	—
— goodwill	**6,206**	—
Write-off of internally generated research and development costs	**—**	6,906
Auditors' remuneration — audit services	**2,300**	2,100
Cost of inventories[#]	**1,510,912**	1,253,284
Operating lease charges: minimum lease payments	**9,457**	9,442
Research and development costs (other than amortisation costs)	**78,071**	98,598
Less: Costs capitalised into intangible assets	**(31,271)**	(47,378)
	46,800	51,220
Other expenses		
— transportation expenses	**518,651**	374,102
— utility expenses	**149,319**	135,109
— advertising expenses	**190,961**	87,267
— marketing service expenses	**394,311**	74,602
— travelling, meeting and entertainment expenses	**84,191**	63,053
— surcharges and other tax expenses	**71,934**	57,548

[#] Cost of inventories includes HK$441,388,000 (2017: HK$380,651,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.

5. Income tax

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

	2018	2017
	HK$'000	*HK$'000*
Current tax – the PRC Corporate Income Tax ("CIT")	**172,280**	141,580
Deferred tax – origination and reversal of temporary differences	**(7,756)**	(7,931)
	164,524	133,649

The Company is incorporated in the Cayman Islands as an exempted company and, accordingly, is exempted from payment of the Cayman Islands income tax.

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2018 and 2017 as the Group did not have any profits assessable to Hong Kong Profits Tax during the current and prior years.

Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No.4"), Jiangsu Best New Medical Material Co., Ltd. ("Jiangsu Best") and Hebei Guolong Pharmaceutical Co., Ltd. ("Hebei Guolong") have been certified as "High and New Technology Enterprises" ("HNTE") in 2018, 2017 and 2017, respectively. According to the tax incentives rules of the CIT Law of the PRC (the "CIT Law") for HNTE, these entities are subject to a reduced corporate income tax rate of 15% for three years.

All other subsidiaries of the Company established and operated in the PRC are subject to the PRC CIT at an applicable rate of 25%.

The CIT Law and its relevant regulations also impose a withholding tax at 10% on the foreign investors with respect to dividend distributions made out of the PRC entities from earnings accumulated from 1 January 2008, unless the foreign investors meet certain requirements specified in the relevant tax regulations in the PRC and accordingly are entitled to a preferential rate of 5%. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

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

	2018	2017
	HK$'000	*HK$'000*
Profit before taxation	**1,079,143**	797,375
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**271,938**	218,981
Effect of the PRC preferential tax rate	**(109,743)**	(94,723)
Effect of non-deductible expenses	**6,506**	4,176
Additional deduction of research and development expenditures	**(6,030)**	(2,906)
Effect of unused tax losses not recognised	**—**	2,071
Withholding tax on profit distributions	**1,878**	6,085
Others	**(25)**	(35)
Actual tax expense	**164,524**	133,649

6. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$911,774,000 (2017: HK$664,719,000) and the weighted average of 2,995,448,000 ordinary shares (2017: 2,844,066,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2018	2017
	'000	*'000*
Issued ordinary shares at 1 January	**2,871,657**	2,839,915
Effect of purchase and cancellation of own shares	**—**	(839)
Effect of share options exercised	**123,791**	4,990
Weighted average number of ordinary shares at 31 December	**2,995,448**	2,844,066

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$911,774,000 (2017: HK$664,719,000) and the weighted average of 3,040,695,000 ordinary shares (2017: 2,912,733,000 ordinary shares) after adjusting the effect of dilutive potential ordinary shares under the Company's share option scheme, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2018	2017
	'000	*'000*
Weighted average number of ordinary shares at 31 December (basic)	**2,995,448**	2,844,066
Effect of deemed issue of shares under the Company's share option scheme	**45,247**	68,667
Weighted average number of ordinary shares at 31 December (diluted)	**3,040,695**	2,912,733

7. Trade and bills receivables

	2018	2017
		(Note)
	HK$'000	*HK$'000*
Trade receivables	**1,177,794**	920,886
Bills receivable	**99,518**	314,366
	1,277,312	1,235,252
Less: Loss allowance *(note)*	**(5,888)**	(4,567)
	1,271,424	1,230,685

Note: Upon the adoption of HKFRS 9, the ECL model replaces the "incurred loss" model in HKAS 39. The Group assessed that such change does not have a significant impact on the consolidated financial statements.

All of the trade and bills receivables are expected to be recovered within one year.

Bills receivable represent short-term bank acceptance notes receivable that entitle the Group to receive the full face amount from the banks at maturity, which generally ranges from 3 to 12 months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivable. The Group from time to time endorses bills receivable to suppliers in order to settle payables.

As at 31 December 2018, the Group endorsed certain bank acceptance bills to suppliers for settling payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations, should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of these bills are of good credit quality and non-settlement of these bills by the issuing banks on maturity is not probable. As at 31 December 2018, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to HK$544 million (31 December 2017: HK$384 million). Bills receivable were therefore derecognised.

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bills receivables, based on the invoice date is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 3 months	**986,536**	1,066,454
4 to 6 months	**225,455**	141,624
7 to 12 months	**65,260**	26,263
1 to 2 years	**61**	911
	1,277,312	1,235,252

8. Trade payables

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 3 months	**141,222**	175,234
4 to 6 months	**5,157**	12,966
7 to 12 months	**1,088**	2,685
1 to 3 years	**433**	2,073
More than 3 years	**605**	631
	148,505	193,589

9. Dividends and share capital

(a) Dividends

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

	2018	2017
	HK$'000	*HK$'000*
Interim dividend declared and paid of HK4.0 cents per share (2017: HK3.0 cents per share)	**120,561**	85,479
Final dividend proposed after the end of the reporting period of HK5.0 cents per share (2017: HK4.0 cents per share)	**150,701**	120,561
	271,262	206,040

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.

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

	2018	2017
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK4.0 cents per share (2017: HK3.0 cents per share)	**120,561**	85,200

(b) Share capital

(i) Issued share capital

	2018		2017	
	No. of shares		No. of shares	
	'000	***HK$'000***	*'000*	*HK$'000*
Ordinary shares of HK$0.02 each, issued and fully paid:				
At 1 January	**2,871,657**	**64,241**	2,844,609	63,700
Purchase and cancellation of own shares	—	—	(7,584)	(152)
Shares issued under share option scheme	**142,368**	**2,847**	34,632	693
	3,014,025	**67,088**	2,871,657	64,241

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

SSY Group Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the research, development, manufacturing and selling of a wide range of pharmaceutical products, which includes finished medicines of mainly intravenous infusion solution to hospitals and distributors, bulk pharmaceuticals and medical materials. The Group has manufacturing plants in Hebei Province and Jiangsu Province, the People's Republic of China (the "PRC"), and sells to customers mainly in the PRC.

For the year ended 31 December 2018, the review on the Group's business performance and financial performance are contained in the Chairman's statement under section headed "BUSINESS REVIEW" and in this Management Discussion and Analysis under section headed "FINANCIAL PERFORMANCE REVIEW" respectively. The future development in the Group's business is discussed in the Chairman's statement under section headed "PROSPECT FOR DEVELOPMENT".

FINANCIAL PERFORMANCE REVIEW

Revenue

The Group's intravenous infusion solution products are mainly manufactured and sold by Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No. 4 Pharma"), a wholly-owned subsidiary. There are different forms of packing in intravenous infusion solution products, including Non-PVC Soft Bag, Upright Soft Bag, PP Plastic Bottle and Glass Bottle. The Group's medical materials are mainly manufactured and sold by Jiangsu Best New Medical Material Co., Ltd. ("Jiangsu Best"), which was also a wholly-owned subsidiary in the Group.

As a result of the increases in sales volumes and average selling prices of intravenous infusion solutions, revenue of the Group for the year ended 31 December 2018 increased to HK$4,180,788,000 (2017: HK$3,076,369,000), representing a growth of 35.9% on a year-to-year basis. Among which, revenue from intravenous infusion solution products contributed HK$3,695,807,000 (2017: HK$2,784,435,000), representing a growth of 32.7% on a year-to-year basis. Among which, revenue from Non-PVC Soft Bag and Upright Soft Bag infusion solution were HK$1,781,357,000 and HK$631,404,000 respectively, totalling HK$2,412,761,000, representing 65.3% of the total revenue from intravenous infusion solution and an increase of 28.8% as compared with last year; revenue from PP Plastic Bottle infusion solution was HK$814,391,000, representing 22.0% of the total revenue from intravenous infusion solution and an increase of 38.0% as compared with last year; revenue from Glass Bottle infusion solution was HK$468,655,000, representing 12.7% of the total revenue from intravenous infusion solution and an increase of 46.1% as compared with last year.

With the increasing demand in the high quality intravenous infusion solution products in the PRC, the Group will keep focusing its production in the Non-PVC Soft Bag and Upright Soft Bag infusion solution as well as increasing the proportion of therapeutic infusion solution among its revenue.

Revenue from medical materials products contributed HK$154,385,000 (2017: HK$132,809,000) to the Group, representing a increase of 16.2% as compared with last year mainly due to an increased capacity after upgrade of its production facilities.

Cost of Sales

The Group's cost of sales increased by 24.0% to HK$1,574,415,000 for the year ended 31 December 2018 as compared to last year of HK$1,269,181,000. The cost of direct materials, direct labour and other costs represented approximately 57.8%, 15.8% and 26.4% of the total cost of sales respectively for the year ended 31 December 2018, which have no significant changes from their comparative percentages for 2017 were 55.6%, 15.7% and 28.7% respectively.

Gross Profit Margin

For the year ended 31 December 2018, the Group recorded a total gross profit of HK$2,606,373,000 (2017: HK$1,807,188,000). Overall gross profit margin increased by 3.6 percentage point to 62.3% from that of last year 58.7%. The increase of gross profit margin was mainly due to a better product mix from products with higher profit margins and the Group's continuous cost control measures.

Other Net Income

For the year ended 31 December 2018, the Group's other net income amounted to approximately HK$73,389,000 (2017: HK$6,397,000) which mainly represented government grants.

Selling and Distribution Costs

For the year ended 31 December 2018, selling and distribution costs amounted to approximately HK$1,230,047,000 (2017: HK$656,089,000), which mainly consisted of transportation cost of approximately HK$512,952,000 (2017: HK$369,443,000), advertising and marketing service expenses of approximately HK$558,442,000 (2017: HK$159,318,000), staff expenses for sales and marketing staff of approximately HK$64,585,000 (2017: HK$51,292,000) as well as travelling and other disbursements of approximately HK$74,814,000 (2017: HK$55,288,000).

Selling and distribution costs significantly increased by 87.5% for the year ended 31 December 2018 as compared with last year. As driven by the growth in the Group's sales volume and number of customers, transportation cost, advertising and marketing service expenses significantly increased mainly due to expanded sales and products coverage, as well as staff related expenses increased mainly due to a larger number of sales and marketing staff.

General and Administrative Expenses

For the year ended 31 December 2018, general and administrative expenses was approximately HK$336,260,000 (2017: HK$306,195,000) which mainly comprised staff expenses for administrative staff of approximately HK$117,161,000 (2017: HK$119,597,000) as well as depreciation and amortisation expenses of approximately HK$90,130,000 (2017: HK$74,347,000).

The increase of 9.8% in general and administrative expenses in 2018 as compared to that of 2017 was mainly driven by the Group's overall expansion in operations.

Profit from Operations

For the year ended 31 December 2018, the Group's profit from operations amounted to HK$1,113,455,000, representing an increase of 30.8% as compared to HK$851,301,000 in 2017, while the operating profit margin (defined as operating profit divided by total revenue) decreased to 26.6% (2017: 27.7%) as a result of higher selling and distribution costs.

Finance Costs

The Group's finance costs in 2018 amounted to HK$50,969,000 (2017: HK$57,356,000), which consisted of mainly interest expenses of bank borrowings. The decrease of 11.1% in finance costs in 2018 as compared to that of 2017 was mainly due to a smaller amount of the Group's bank borrowings.

Income Tax Expense

The Group believes that Shijiazhuang No. 4 Pharma, Jiangsu Best and Hebei Guolong Pharmaceutical Co., Ltd. are qualified as the High and New Technology Enterprise and thus subject to a 15% preferential income tax in the PRC for both 2018 and 2017. For the year ended 31 December 2018, the income tax expense of the Group increased by 23.1% to HK$164,524,000 (2017: HK$133,649,000) mainly due to higher profits before taxation as compared to last year.

Profit Attributable to Equity Shareholders

Profit attributable to equity shareholders of the Company in 2018 increased by 37.2% to HK$911,774,000 (2017: HK$664,719,000). The net profit margin (defined as profit attributable to equity shareholders of the Company divided by total revenue) slightly increased to 21.8% from 21.6% last year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group primarily finances its working capital and other capital requirements by net cash generated from operating activities and resorts to external financing including both long-term and short-term bank borrowings from time to time in case the projected operating cash flow is insufficient to meet the capital requirements.

As at 31 December 2018, the cash and cash equivalents aggregated to HK$902,062,000 (2017: HK$687,319,000), mostly were denominated in Renminbi ("RMB").

As at 31 December 2018, the Group's bank borrowings amounted to HK$1,494,502,000 (2017: HK$1,748,709,000), comprising HK$639,123,000 (2017: HK$846,946,000) of borrowings denominated in RMB and HK$855,379,000 (2017: HK$901,763,000) in Hong Kong dollars. Except for a RMB180,000,000 bank borrowing which is repayable over 5 years, all of the Group's bank borrowings were repayable within 5 years, mostly bearing interest at floating rate.

Gearing ratio (defined as bank borrowings less cash and cash equivalents divided by total capital less non-controlling interests) significantly decreased from 23.4% as at 31 December 2017 to 12.3% as at 31 December 2018 due to a decrease in the Group's bank borrowings together with an increase in the Group's net asset value as at 31 December 2018 as compared to 31 December 2017.

Current ratio (defined as current assets divided by current liabilities) further improved from 1.67 as at 31 December 2017 to 2.22 as at 31 December 2018.

As at 31 December 2018, the Group's total capital commitments outstanding but not provided for was HK$505,649,000 (31 December 2017: HK$258,347,000).

EMPLOYEES AND REMUNERATION POLICY

As its business operation keeps growing, the Group had a need to strengthen its workforce to approximately 4,100 employees as at 31 December 2018 (2017: 3,700 employees), most of whom were based in the PRC. The remuneration policy of employees other than executive Directors and senior management is based on industry practice and is periodically reviewed by executive Directors or senior management. Apart from social insurance and in-house training programmes, other kinds of remuneration such as discretionary bonuses, share options under the Share Option Scheme and shares granted under the Restricted Share Award Scheme may be awarded to eligible employees according to the assessment of individual performance.

The remuneration policy of executive Directors and senior management are reviewed and recommended for the Board's approval by the Remuneration Committee. In addition, share options may be granted under the Share Option Scheme and shares may be granted under the Restricted Share Award Scheme to the executive Directors and senior management. The remuneration package is reviewed with reference to the Board's corporate goals and objectives, prevailing market practice, duties and responsibilities of the individual executive Director or senior management and his/her contribution to the Group.

The total remuneration cost incurred by the Group for year ended 31 December 2018 was approximately HK$430,055,000 (2017: HK$370,632,000).

CHARGE ON ASSETS

As at 31 December 2018, the Group's land use right with carrying amount of HK$72,984,000 (2017: HK$20,013,000) and the Group's property, plant and equipment with carrying amount of HK$28,273,000 (2017: HK$28,584,000) were pledged as collateral for the Group's borrowings.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE RISK

Majority of the Group's businesses are operated in the PRC and are denominated in RMB. Except for the foreign currency translation risk arising from the translation into Hong Kong dollars for the financial statements of subsidiaries with the functional currencies of RMB, the Group does not expect any materially adverse effects of the exchange rate fluctuation. Hence, no financial instrument for hedging was employed. Nevertheless, the Group is closely monitoring the financial market and would consider appropriate measures if required.

As at 2018 and 2017, the exchange rates of converting HK$ into RMB (as calculated in HK$) were:

1 January 2017	0.89451
31 December 2017	0.83591
31 December 2018	0.87620

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

SHARE OPTION SCHEME

As approved by an ordinary resolution passed by the shareholders at the Extraordinary General Meeting held on 20 September 2012, the Board had terminated the old share option scheme adopted on 16 October 2005 and adopted the existing share option scheme ("Share Option Scheme").

Share Option Scheme is valid and remains in force for a period of 10 years from 20 September 2012 (the "Scheme Period") unless terminated earlier by shareholders in general meeting. The purpose of Share Option Scheme is to enable the Board to grant share options to the Eligible Person as defined in Share Option Scheme including, among others, the directors, employee or proposed employee, consultants or advisers of or to the Company or its subsidiaries or any entity in which the Group holds an equity interest, as incentives or rewards for their contribution or potential contribution to the development and growth of the Group. The provisions of Share Option Scheme comply with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Pursuant to Share Option Scheme, the offer for grant of options ("Offer") must be accepted within 30 days inclusive of the day on which such offer was made, with a payment of HK$1.00 as consideration for the grant. The exercise price of the share option is to be determined by the Board provided always that it shall be at least the higher of (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange for the date of offer of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer of grant provided that the option price per share shall in no event be less than the nominal amount of one share. The share options are exercisable at any time during a period as the Board may determine in granting the share options but in any event shall not exceed 10 years from the date of Offer, subject to the terms and conditions of Share Option Scheme and any conditions of grant as may be stipulated by the Board.

The aggregate number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under Share Option Scheme and any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issuable upon exercise of all options to be granted Share Option Scheme and any other schemes as from the commencement of the Scheme Period must not, in aggregate, exceed 10% of the shares in issue as at 20 September 2012 (the "Scheme Mandate Limit"). The Scheme Mandate Limit may be refreshed at any time by obtaining approval of the shareholders in general meeting provided that the new limit under the refreshed Scheme Mandate Limit must not exceed 10% of the issued share capital of the Company at the date of the shareholders' approval. The maximum number of shares issued and to be issued upon exercise of the options granted under Share Option Scheme and any other schemes to any of the Eligible Person (including cancelled, exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of issued share capital of the Company unless shareholders' approval is obtained under the terms of Share Option Scheme.

On 19 October 2015, the Company granted a total of 122,000,000 share options to two executive directors of the Company and other management staff of the Group under Share Option Scheme, representing about 4.33% of the issued share capital as at the date immediately before share options were granted. The exercise price was HK$1.98. The exercisable period was from 19 October 2015 to 18 October 2018. During the year ended 31 December 2018, a total of 72,368,000 (2017: 34,632,000) share options were exercised by two (2017: three) of management staff of the Group who was not a director of the Company and two (2017: nil) executive directors of the Company. As a result, during the year ended 31 December 2018, a total of 72,368,000 (2017: 34,632,000) ordinary shares of the Company was issued.

On 15 April 2016, the Company granted 122,000,000 share options to Mr. Qu Jiguang, the Chairman and the CEO of the Company, under Share Option Scheme, representing about 4.31% of the issued share capital as at the date immediately before share options were granted. The exercise price was HK$2.58. The exercisable period was from 15 April 2016 to 14 April 2021. Such grant of share options was approved by the independent shareholders at the annual general meeting held on 27 May 2016. During the year ended 31 December 2018, a total of 70,000,000 (2017: nil) share options were exercised by Mr. Qu Jiguang and, as a result, a total of 70,000,000 (2017: nil) ordinary shares of the Company was issued.

The refreshment of Scheme Mandate Limit was approved at the annual general meeting held on 27 May 2016. Upon such approval, the Directors were authorised to grant share options to subscribe up to 10% of the issued share capital as at the date of such approval. Pursuant to the Listing Rules and the Share Option Scheme, share options previously granted under the Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or exercised share options) will not be counted for purpose of calculating the Scheme Mandate Limit as refreshed. The limit on the number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the shares in issue from time to time. No share options may be granted under the Share Option Scheme and any other schemes of the Company if this will result in the limit being exceeded.

The movement of total number of share options outstanding is shown as follows:

	2018	2017
Outstanding at the beginning of the year	**194,368,000**	229,000,000
Granted during the year	**—**	—
Exercised during the year	**(142,368,000)**	(34,632,000)
Lapsed during the year	**—**	—
Outstanding and exercisable at the end of the year	**52,000,000**	194,368,000

As at 31 December 2018, the share options granted under Share Option Scheme and remained outstanding had an weighted average exercise price of approximately HK$2.58 (31 December 2017: HK$2.36) and a remaining contractual life of approximately 2.29 years (31 December 2017: 2.36 years).

The details of share options movements during the year ended 31 December 2018 are shown as follows:

(i) Directors of the Company

				Number of share options			
Name of Director	Date of grant	Exercise price per share	Exercisable period	Outstanding at 1 Jan 2018	Granted during the year	Exercised during the year	Outstanding at 31 Dec 2018
Mr. Qu Jiguang	15 Apr 2016	HK$2.58	15 Apr 2016 — 14 Apr 2021	122,000,000	—	(70,000,000)	52,000,000
Mr. Wang Xianjun	19 Oct 2015	HK$1.98	19 Oct 2015 — 18 Oct 2018	24,416,000	—	(24,416,000)	—
Mr. Su Xuejun	19 Oct 2015	HK$1.98	19 Oct 2015 — 18 Oct 2018	24,416,000	—	(24,416,000)	—
				170,832,000	**—**	**(118,832,000)**	**52,000,000**

(ii) Employees (other than directors of the Company)

			Number of share options			
Date of grant	Exercise price per share	Exercisable period	Outstanding at 1 Jan 2018	Granted during the year	Exercised during the year	Outstanding at 31 Dec 2018
19 Oct 2015	HK$1.98	19 Oct 2015 — 18 Oct 2018	23,536,000	—	(23,536,000)	—
			23,536,000	**—**	**(23,536,000)**	**—**

Assuming that all share options outstanding as at 31 December 2018 are exercised, the Company will receive proceeds of approximately HK$134,160,000.

RESTRICTED SHARE AWARD SCHEME

The Company has adopted the Restricted Share Award Scheme on 27 December 2018 (the "Adoption Date"), pursuant to which existing Shares will be purchased by the trustee from the market out of cash contributed by the Group and be held on trust for the participants selected by the Board (the "Selected Participants") until such Shares are vested in the relevant Selected Participants in accordance with the terms of the Restricted Share Award Scheme. The purpose and objective of the Restricted Share Award Scheme are to provide the Selected Participants with an opportunity to acquire a proprietary interest in the Company, to encourage and retain such individuals to work with the Company, and to provide additional incentive for them to achieve performance goals. The Restricted Share Award Scheme shall terminate upon the expiry of the period of 10 years from the Adoption Date.

The Board may, from time to time, at its absolute discretion determine the number of restricted Shares to be granted and select any participant to be a Selected Participant with such vesting conditions as it may deem appropriate under the Restricted Share Award Scheme. Participants of the Restricted Share Award Scheme include any individual being an executive director, employee, officer of the Company or any subsidiary. The maximum number of Shares which the trustee may purchase with funds contributed by the Group amounts to 60,280,507 Shares, representing 2% of the Company's issued share capital as at the Adoption Date. The maximum number of Shares which may be granted to a Selected Participant at any one time or in aggregate may not exceed 1% of the issued share capital of the Company as at the Adoption Date, and the transactions involved shall be in compliance with the requirements of Chapter 14A of the Listing Rules if they fell under the definition of "connected transactions" in Chapter 14A of the Listing Rules.

Up to the date of this annual report, no Shares have been purchased by the trustee and no shares have been awarded to any Selected Participants pursuant to the Restricted Share Award Scheme since the Adoption Date.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the latest practicable date, being 13 March 2019, and at all times during the year ended 31 December 2018.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a high standard of corporate governance. The Board believes that good corporate governance practices are essential for the growth of the Group and for safeguarding and maximizing shareholders' interests.

The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). During the year, the Company has complied with all applicable provisions of CG Code with deviation from code provision A.2.1 which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Board appointed Mr. Qu Jiguang as the Chairman, who was responsible for the leadership and effective running of the Board. Mr. Qu Jiguang has also assumed the role as the chief executive officer of the Company, who was delegated with the responsibilities to lead the management implementing the business strategies of the Group. The Company believes that vesting both roles in Mr. Qu Jiguang will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's annual results for the year ended 31 December 2018 in conjunction with the Group's external auditors.

The financial figures in respect of 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 2018 as set out in the preliminary announcement have been compared by the Group'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.

DIVIDENDS

The Company will consider paying dividends twice a year, which are interim dividend and final dividend. From time to time, the Board may declare interim dividend. Under normal business conditions, and subject to the approval by the shareholders in a general meeting, the Board may recommend final dividend to maintain a stable dividend payout ratio (defined as the Group's audited net profits attributable to the shareholders in each financial year divided by the aggregated amount of interim dividend and final dividend for that year) but there is no assurance that dividends will be paid in any particular amount for any given period. The Board may also declare special dividends in addition to such dividends, or consider the issuance of bonus shares on a basis permitted by the applicable laws and regulations as it considers appropriate.

For the year ended 31 December 2018, an interim dividend of HK$0.04 per share was declared on 27 August 2018 and paid on 21 September 2018 (2017: HK$0.03 per share). The Board recommended a final dividend of HK$0.05 per share (2017: HK$0.04 per share) which, together with the interim dividend, will result in total dividends of HK$0.09 per share for the year ended 31 December 2018 (2017: HK$0.07 per share). The payment of the final dividend is subject to the approval in the forthcoming annual general meeting.

In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting, all property completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Tuesday, 14 May 2019 which is the Record Date for the proposed final dividend. The proposed final dividend is expected to be paid on or about Monday, 27 May 2019.

ANNUAL GENERAL MEETING

The 2019 Annual General Meeting of the Company will be held at 2:00 p.m. on 8 May 2019 at Rooms 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and a notice of annual general meeting will be published and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 3 May 2019 to Wednesday, 8 May 2019, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Thursday, 2 May 2019.

PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company's website (www.ssygroup.com.hk) and on the website of Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The 2018 annual report containing all the information required by the Listing Rules will be available on the above websites and will be despatched to the shareholders in due course.

Finally, on behalf of the Board, I hereby express our sincere gratitude to our investors and staff for their dedicated support.

On behalf of the Board
Qu Jiguang
Chairman

Hong Kong, 13 March 2019

As at the date of this announcement, the Board comprises Mr. Qu Jiguang, Mr. Wang Xianjun and Mr. Su Xuejun as executive Directors, Mr. Feng Hao as non-executive Director and Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai as independent non- executive Directors.