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# 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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022**

### **CHAIRMAN'S STATEMENT**

On behalf of the board of directors (the "Board") of SSY Group Limited (the "Company"), I hereby present the unaudited interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2022.

### **I. RESULT AND DIVIDEND DISTRIBUTION**

During the first half of 2022, faced with pressure from continuous impacts of the epidemic, shrinking market demands and supply shock, the Group seized the development opportunities arising from changes in the industrial landscape and policy support for the industry, continued to exert and enhance its competitive strength, and implemented a series of measures to improve quality and enhance efficiency of its main business segments including preparations, bulk pharmaceuticals and medical materials, so as to maintain good growth momentum and lay a solid foundation for the accomplishment of its established targets for the full year.

During the first half of the year, the Group achieved a revenue of HK\$3,405 million, representing an increase of 39.4% compared to the corresponding period of last year, and the net profit was HK\$570 million, representing an increase of 106.8% compared to the corresponding period of last year. The Directors resolved to pay an interim dividend of HK\$0.06 per share on 30 September 2022 to the shareholders named in the register of members of the Company on 19 September 2022, which represented an increase of 20% compared to the corresponding period of last year.

## II. BUSINESS REVIEW

	For the six months ended 30 June 2022		2021		Increase %
	Revenue HK\$'000	Percentage of revenue %	Revenue HK\$'000	Percentage of revenue %	
Intravenous infusion solution and others	<b>3,313,963</b>	<b>97.3</b>	2,362,285	96.7	40.3
(Including: Non-PVC soft bag & upright soft bag infusion solution	<b>1,313,033</b>	<b>38.6</b>	1,058,124	43.3	24.1
PP plastic bottle infusion solution	<b>403,510</b>	<b>11.8</b>	361,076	14.8	11.8
Glass bottle infusion solution	<b>117,086</b>	<b>3.4</b>	108,227	4.4	8.2
Ampoule injection	<b>510,665</b>	<b>15.0</b>	487,798	20.0	4.7
Bulk pharmaceuticals	<b>776,609</b>	<b>22.8</b>	246,878	10.1	214.6
Others)	<b>193,060</b>	<b>5.7</b>	100,182	4.1	92.7
Medical materials	<b>90,550</b>	<b>2.7</b>	80,505	3.3	12.5
Total	<b>3,404,513</b>	<b>100.0</b>	2,442,790	100.0	39.4

### (1) Sales of Products

Further implementation of reform to the National Centralised Medicines Procurement has brought new opportunities and challenges to pharmaceutical enterprises and the industry. Focusing on the dual circulation of domestic and international markets development pattern, the Group concentrated its efforts on market development for dominant preparations and key types of preparation products, and explored the domestic and overseas markets for its bulk pharmaceuticals and medical materials products. The Group also proactively optimised its product mix and placed great emphasis on the marketing of new featured products, leading to a new growth in market shares and sales volume.

Through striving to improve product quality to gain market access, the Group made continuous efforts to cultivate intensively markets of its traditional dominant products and tap into markets of its new products. In the first half of the year, by giving full play to the innovation advantage of generic drugs and riding on the positive results of the consistency evaluation, the Group actively participated in the seventh round of National Centralised Medicines Procurement and renewal of previous National Centralised Medicines Procurement contracts, so as to continuously expand the market accessibility and influence of the Group's preparation products. In addition, the Group carried out online tendering of key signature products such as Moxifloxacin Hydrochloride Eye Drops, Blonanserin Tablets as well as Paracetamol and Mannitol Injection in 19 provinces. During the first half of the year, 359 end customers were added to the Group's sales, of which 106 being hospitals with monthly usage

of more than 30,000 bottles (bags), creating favourable conditions to maintain market and expand penetration and coverage of its key products and new products. Two products of the Group, namely Bromhexine Hydrochloride Injection (2ml:4mg) and Cefaclor for Suspension (0.125g), were awarded the first and second place respectively in the tender in the seventh round of National Centralised Medicines Procurement, which will become new profit growth drivers for the Group. At present, 8 product types with 11 specifications of the Group have been selected in the National Centralized Medicines Procurement. In the first half of the year, the Group recorded a revenue of HK\$132 million from sales of products selected in the National Centralized Medicines Procurement, representing an increase of approximately 260% compared to the corresponding period of last year.

Production and sales of injection maintained a steady or rising trend, and the proportion of key therapeutic products showed new growth. Amidst the normality under epidemic, the domestic pharmaceutical market witnessed a stable rigid demand. The Group continued to increase the market shares of the intravenous infusion solution and continuously solidified its leading position in the market. In the first half of 2022, sales volume of infusion solutions reached approximately 754 million bottles (bags), representing an increase of approximately 19.3% compared to the corresponding period of last year. Revenue of infusion solutions reached approximately HK\$1,834 million, representing an increase of approximately 20% compared to the corresponding period of last year. In particular, sales volume of key infusion solution products reached approximately 127 million bottles (bags), representing an increase of approximately 41% compared to the corresponding period of last year, among which, sales volume of Mannitol reached approximately 16.98 million bottles (bags), representing an increase of approximately 36% as compared to the corresponding period of last year; sales volume of Ambroxol Hydrochloride and Sodium Chloride Injection reached approximately 1.88 million bottles, representing an increase of approximately 566% as compared to the corresponding period of last year; sales volume of Moxifloxacin Hydrochloride reached approximately 1.96 million bags, representing an increase of approximately 218% as compared to the corresponding period of last year; sales volume of Peritoneal Dialysis Solution products reached approximately 1.56 million bags, representing an increase of approximately 233% as compared to the corresponding period of last year; sales volume of Ciprofloxacin Lactate reached approximately 7.08 million bottles (bags), representing an increase of approximately 183% as compared to the corresponding period of last year; sales volume of Fluconazole reached approximately 0.83 million bags, representing an increase of approximately 797% as compared to the corresponding period of last year.

Ampoule products delivered a remarkable market performance and have become a new support for the development of the Group's injection segment. In the first half of the year, the sales volume of Betahistine Hydrochloride Injection, a major product, reached 12.94 million, representing an increase of approximately 16.7% compared to the corresponding period of last year. The Group accelerated the sales of products selected in the National Centralized Medicines Procurement including Ambroxol Hydrochloride, Doxofylline and Ropivacaine Hydrochloride. At the same time, the Group has made concerted efforts to promote the marketing of new ampoule products including Bromhexine Hydrochloride, Terbutaline Sulfate Nebuliser Solution and Dexmedetomidine, which has achieved expected results. During the first half of the year, sales volume of ampoule products of the Group was approximately 68.27 million, representing an increase of approximately 36.9% as compared to the corresponding period of last year, and the revenue reached HK\$511 million, which maintained a good growth momentum and became a new driver for development. In addition, Moxifloxacin Hydrochloride Eye Drops, the first ophthalmological liquid preparations of the Group, has been approved and launched to the market, filling the Group's gap in this preparation category.

Solid preparations business segment delivered a steady and positive sales performance. In line with the national and local centralised procurement policies, the Group made coordinated efforts to secure market supply of tender-awarded products such as Cefdinir capsule and Prucalopride Succinate tablet. At the same time, through a series of measures including stepping up promotion among professions, adjusting market layout and expanding sales channels penetration, the Group strengthened close commercial cooperation with top 100 chain pharmaceutical companies, so as to promote and expand the market of Blonanserin tablets (first approval of such type for PRC entities) and new product Rosuvastatin Calcium tablet (5mg). In the first half of the year, solid preparations products achieved revenue of HK\$145 million, representing an increase of approximately 71% as compared to the corresponding period of last year.

Bulk pharmaceuticals business achieved a boost in both production and sales. After continuous optimization of production process and enhancement of environmental protection treatment capacity of Hebei Guangxiang Pharmaceutical Co., Ltd. and Hebei Guolong Pharmaceutical Co., Ltd. of the Group, the advantages such as cost and quality were further demonstrated, and the premium production capacities were realised rapidly. In particular, as a vertical integration, the Group acquired Cangzhou Lingang Youyi Chemical Co., Ltd. at the beginning of the year, significantly improving the coordination between upstream and downstream entities of the industrial chain and remarkably enhancing and driving the profitability of the Group's bulk pharmaceuticals segment. During the first half of the year, revenue of bulk pharmaceuticals reached HK\$777 million, representing an increase of 214.6% as compared to the corresponding period of last year. Caffeine (being a commodity bulk pharmaceutical of Hebei Guangxiang Pharmaceutical Co., Ltd.) achieved an aggregate sales volume of 3,249 tonnes, representing an increase of approximately 192% compared to the corresponding period of last year, supplying mainly to markets including America, Europe and Asia. Sales volume of Metronidazole to external customers of the Group reached 122

tonnes, representing an increase of approximately 32% as compared to the corresponding period of last year. Sales volume of Nifedipine reached 19 tonnes, representing an increase of approximately 187% compared to the corresponding period of last year. With the gradual stabilization of global epidemic, volume of antibiotics used tends to be rational, sales volume of Azithromycin (a major product of Hebei Guolong Pharmaceutical Co., Ltd.) reached 95 tonnes, representing a decrease of approximately 25.5% as compared to the corresponding period of last year. With the Group's continuous efforts in the bulk pharmaceuticals segment, the product mix has become increasingly diversified. A number of new specialised bulk pharmaceuticals products with high added value, such as new products approved of Hebei Guangxiang Pharmaceutical Co., Ltd. including Epalrestat, Pitavastatin Calcium, Rosuvastatin Calcium, Lacosamide, Pentoxifylline, Levornidazole, Ornidazole and new products of Hebei Guolong Pharmaceutical Co., Ltd. including Terbutaline Sulfate, Ipratropium Bromide, Cinacalcet Hydrochloride, Lurasidone Hydrochloride, Dexmedetomidine Hydrochloride, Blonanserin and Linezolid, have been put into commercial production, injecting new fuel for the healthy and steady development of the Group's bulk pharmaceuticals segment.

The Group achieved a growth jump in production and sale of medical materials. In the first half of the year, seizing the opportunity arising from its quotation on the "Innovative Layer" of the National Equities Exchange and Quotations, Jiangsu Best New Medical Material Co., Ltd. continued to expand its market shares in key medical materials products including butyl rubber stoppers, inserts, infusion films and bioprocessing films through product upgrade and technology advancement, and established stable partnerships with a number of large-scale pharmaceutical groups in the PRC, laying a solid market foundation for quality enhancement and efficiency improvement. In the first half of the year, Jiangsu Best New Medical Material Co., Ltd. recorded a revenue from external customers of the Group of HK\$90.55 million, representing an increase of 12.5% compared to the corresponding period of last year. In July 2022, the project of multi-layer coextrusion bioprocessing films and high-end medical film materials with an annual production capacity of 20 million square meters has completed construction and ready for production. Products have a wide application in fields such as cell culture, vaccine research and development as well as biotech products, can replace those imported and have a promising prospect.

Exports of preparations to foreign countries had a positive trend. In the first half of the year, export market of the Group's preparations showed a trend of rebound, with continuous recovery of exports, specifically in the Asia and Africa markets with significant growth. Among which, the export of infusion solutions recorded a revenue of HK\$63.99 million, representing an increase of 102% compared to the corresponding period of last year. During the period, the Group continued to maintain good relationship with international customers and carry out overseas product registration, adding and updating 30 product registration certificates in 10 countries. Currently, the Group has obtained 327 product registration certificates in almost 100 countries.

## **(2) *Research and Development of New Products***

By using market demands as the guide and adhering to the strategy of “combination of generic and innovative drugs”, the Group made continuous and coordinated efforts to push forward the research and development of featured generic drugs, bulk pharmaceuticals, innovative drugs, medical materials as well as product types under consistency evaluation. The Group kept solidifying and expanding its strength in the research and development of featured generic drugs.

During the first half of the year, a total of 22 production approvals were obtained, including 14 types of infusion products and 8 types of bulk pharmaceuticals, with the number of approvals obtained exceeding that of the whole year of 2021. In particular, three products, namely Fluconazole and Sodium Chloride Injection (50ml) (a broad spectrum antifungal drug), Blonanserin tablets (4mg) (an anti-schizophrenia drug) and Paracetamol and Mannitol Injection (a drug for relieving fever in adults) were the first of such approvals for the PRC entities. In addition, Pentoxifylline bulk drug (for production of preparation items for treatment of brain blood circulation disorder) and Levornidazole bulk pharmaceuticals (for production of preparation items for the prevention of infection before surgery and surgical treatment of anaerobic infections) were the second and third of such approvals for PRC entities. So far, a total of 26 product types with 35 specifications of the Group have passed or were regarded as passing the national consistency evaluations regarding the quality and efficacy of generic drugs. During the period, 124 products of various types were also submitted by the Group to the Center for Drug Evaluation (CDE) of the National Medical Products Administration for approval, including 100 preparation products (including products for consistency evaluation) and 24 types of bulk pharmaceuticals. The Group achieved positive progress in the Phase 1 clinical trial of the Type I innovative drug NP-01 project, and were stepping up efforts in the preparation of application materials for Phase 1 clinical trial for the innovative drugs including ADN-9, aiming to apply within the year. During the first half of the year, the Group was a leader of the domestic industry in terms of research and development efficiency and number of approvals obtained for generic drugs, and was ranked the top of the pharmaceutical enterprises in China in terms of number of generic drugs submitted for approvals, with a total of 59 products under review for approval. The Group’s positive results in the research and development of innovative drugs have entered into a “harvest period” with an increasingly enriched product mix, which has translated into strong driving force for the Group’s development. In addition, the Group took part in the national key science and technology project, namely the Construction and Pilot Application Project of Clinical Evaluation Technology Platform for Pediatric Drugs, which has been successfully completed during the period. Outstanding innovation achievements have offered strong support for the construction of research and development platform of the Group. According to the 2021 evaluation result of over 1,000 national enterprise technology centers released by the National Development and Reform Commission, the national enterprise technology center established by the Group was rated “outstanding” and achieved a ranking of No.138 in terms of total score which was in the front part.



The Group has achieved new results in innovation platform construction and talent cultivation. During the first half of the year, based on industry demands and company positioning, the Group increased the investments and gradience in technological innovation. Leveraging the collaborative innovation mechanism which integrated production, education, research and application with relevant renowned universities and scientific research institutes, the Group joined hands with the scientific research team from China Pharmaceutical University, experts from Shenyang Pharmaceutical University and other institutions to carry out research and development of small molecular compounds as well as specialised first generic drugs, pushing the Group's research & development and innovation towards mid-to-high end of industrial chain and value chain. Furthermore, while focusing on sustainable development of the Group, we made continuous efforts to explore new approach, new mechanism and new model for the collaborative cultivation of high-end application-oriented talents. During the first half of the year, the Group cooperated with China Pharmaceutical University to establish a university-level practice base for professional degree postgraduate. China Pharmaceutical University may assign twelve postgraduates each year to carry out internship with the Group for a term of two years during the relevant agreement so that the Group can proactively gain useful experiences for talent cultivation and exploration in recruitment.

### **(3) *Development of Projects***

Keeping abreast of the industrialisation of research and development results and riding on the development of fundamental projects, the Group upheld the development principle of “priority to quality, innovation, intelligence and energy conservation”, and effectively aligned the modern, IT-oriented and intelligent development of projects with refined management, cost reduction, quality assurance as well as safety and environmental protection during the production process, in an effort to establish a benchmark and model of production in this industry.

In the first half of the year, by leveraging to the leading role of projects for industrial development, the Group carried out overall planning and step-by-step implementation in project development, with an aim to build up competitive strength in the domestic mid-to-high end market and international market. The Group proactively pushed forward the production projects such as lyophilized, emulsion and large-size soft bags as well as development of new and extending projects including the specialised bulk pharmaceuticals of Hebei Guolong Pharmaceutical Co., Ltd. which is a provincial and municipal-level key project. With the support of preferential policies for enterprises promulgated by governments at all levels, we stepped up efforts to push forward the implementation of ongoing technology improvement projects, with the production workshops of lyophilized, emulsion and specialised bulk pharmaceuticals of Hebei Guolong Pharmaceutical Co., Ltd. entering into equipment and facility installation stage. In addition, the bioprocessing film project of Jiangsu Best New Medical Material Co. Ltd. with an annual production capacity of 20 million square meters has completed construction and was ready for production in July 2022, providing a solid foundation for overall improvement of market supply capacity.

#### **(4) Capital Operation**

Capital operation has been effective and efficient with expectations met. In accordance with the Group's development model in business direction and capital market, the Company has acquired as a vertical integration of the whole equity interest in Cangzhou Lingang Youyi Chemical Co., Ltd. in March 2022, providing important supports and guarantees for enhancement of stable supply, optimisation of production costs as well as achievement of the goal of expanding and doubling the annual production of 7,000 tonnes of caffeine for the caffeine production chain. Meanwhile, Jiangsu Best New Medical Material Co., Ltd. made positive progress in its listing, opening a new chapter for integrated development of product market and capital market. After review and approval by the National Equities Exchange and Quotations Corporation Limited, Jiangsu Best New Medical Material's shares were officially quoted on the "Innovative Layer" of the National Equities Exchange and Quotations on 7 July 2022. Jiangsu Best New Medical Material Co., Ltd. is committed to accelerating its transition to the A-share market of the Beijing Stock Exchange with more impressive development performance by further strengthening market competitiveness of its products and continuously consolidating its dominant position in the medical packaging industry.

### **III. PROSPECTS FOR DEVELOPMENT**

Looking forward to the second half of 2022, economic situation may remain severe and complicated amidst the normality under global epidemic. Against this backdrop, the Group will actively seize development opportunities and expand its operation advantages. The Group will make effort to facilitate the dual circulation of domestic and international markets in order to secure preemptive opportunities for development, and to maintain the positive momentum in the Group's stable development.

1. On the preparations business, the Group will improve quality and enhance efficiency of its principal business by strengthening inventory level and expanding sales volume. The Group will have an in-depth and a better systematic analysis on national and local centralized procurement policies, and seize good opportunity for precise market access. In particular, the Group will seize the market opportunities arising from the eighth round of National Centralised Medicines Procurement, with an aim to further expand the market share and influence of its products passing the consistency evaluation. The Group will make practical efforts to explore potential markets and increase sales volume of key therapeutic preparation products such as Blonanserin, Levofloxacin Lactate, Lipid Emulsion, Linezolid, Glycine, Terbutaline Sulfate Nebuliser and Peritoneal Dialysis Solution, with an aim to improve the profit margin of the products overall. Meanwhile, keeping abreast of the changes in market demands, the Group will step up marketing efforts for innovative products including butyl-rubber stoppers, infusion films and bioprocessing films, so as to strengthen the Group's position and product influence in the medical materials industry.



2. On the bulk pharmaceuticals business, the Group will proactively facilitate the domestic and international markets, and make efforts to strengthen and expand its bulk pharmaceuticals business, aiming to make a greater contribution to the development of the Group. With a focus on the key target of an annual production and sales volume of 7,000 tonnes of caffeine by Hebei Guangxiang Pharmaceutical Co., Ltd., the Group will devote more efforts to explore domestic customers while stabilizing the customer base in America, Europe, South Asia, Southeast Asia and other regions, proactively establishing a new pattern of coordinated and competitive development of the domestic and international markets for the bulk pharmaceuticals segment, so as to achieve a balance between production and sales. The Group will practically push forward the application procedures for recognition of Cangzhou Lingang Youyi Chemical Co., Ltd. as a high-new technology enterprise, and make great efforts to achieve an annual sales volumes of 30,000 tonnes for the Methylamine series products, further highlighting the supporting role of a “Specialized, Fine, Unique and Innovative” and “Little Giant” enterprise. Hebei Guolong Pharmaceutical Co., Ltd. will continuously improve the market competitiveness of key products such as Azithromycin, Hydroxyethyl starch 40, Hydroxyethyl starch 130, Terbutaline Sulfate and Abidol by increasing production output, reducing costs and increasing efficiency.
3. New breakthroughs will be achieved in accelerating the development of specialised generic drugs and innovative drugs. The research and development of specialised generic drugs remains the focus of the Group’s research and development work for the moment. Facing the increasingly intensified competition in the research and development of generic drugs, the Company will leverage on the cooperation mechanism with universities and scientific research institutes, organise the product types in its pipeline and plan, and explore more high quality research projects. We will facilitate effective translation of our research and development achievements into products, and create a good head start to win the market for high quality products. At present, there are 195 projects under research and 119 new products pending for approval. In the second half of the year, we will strive to obtain production approvals for 25 new products and submit approvals for 47 new products of various types, making new breakthroughs and new progress in key research and development projects and continuing to empower high-quality development of the Company with innovation achievements.
4. The Group will continue to push forward proactively the spinoff listing of bulk pharmaceuticals segment in the PRC. At the same time, combining its own advantages, the Group will proactively seek opportunities of acquisition and investment in the pharmaceutical industry in order to strengthen the Group’s position in the market and products and to increase the return on investment.

Facing the risks and challenges in the post-pandemic era, the Group will seize new opportunities for development in the industry. We will maintain the resilience and vitality of innovative development, and strive for facilitating the quality development of the Group. We firmly believe that, by virtue of the scale, quality, management and brand advantages accumulated in the industry over the years and the continuous innovation momentum released by the Group, we will strive to create new high record again in the year 2022 in terms of production, sales and profit, and will bring satisfactory returns to our investors with a stronger result of development.

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 six months ended 30 June 2022 (unaudited)**(Expressed in Hong Kong dollars)*

	Note	Six months ended 30 June	
		2022 HK\$'000	2021 HK\$'000
<b>Revenue</b>	3	<b>3,404,513</b>	2,442,790
Cost of sales		<u>(1,465,066)</u>	<u>(973,075)</u>
<b>Gross profit</b>		<b>1,939,447</b>	1,469,715
Other net income		28,711	40,566
Selling and distribution costs		(933,182)	(862,274)
General and administrative expenses		(151,434)	(153,520)
Research and development costs		(124,425)	(134,947)
Impairment losses on trade, bills and other receivables		<u>(2,794)</u>	<u>–</u>
<b>Profit from operations</b>		<b>756,323</b>	359,540
Finance income		24,689	8,443
Finance costs		<u>(37,876)</u>	<u>(29,007)</u>
Finance costs – net	4(a)	(13,187)	(20,564)
Share of profit of an associate		<u>6,083</u>	<u>–</u>
<b>Profit before taxation</b>	4	<b>749,219</b>	338,976
Income tax	5	<u>(137,743)</u>	<u>(60,945)</u>
<b>Profit for the period</b>		<u>611,476</u>	<u>278,031</u>
<b>Other comprehensive income for the period, net of nil tax</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency		<u>(353,664)</u>	<u>78,717</u>
<b>Other comprehensive income for the period</b>		<u>(353,664)</u>	<u>78,717</u>
<b>Total comprehensive income for the period</b>		<u>257,812</u>	<u>356,748</u>

		<b>Six months ended 30 June</b>	
		<b>2022</b>	2021
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Profit attributable to:</b>			
Equity shareholders of the Company		<b>570,056</b>	275,661
Non-controlling interests		<b>41,420</b>	2,370
		<u>                    </u>	<u>                    </u>
<b>Profit for the period</b>		<b>611,476</b>	278,031
		<u>                    </u>	<u>                    </u>
<b>Total comprehensive income attributable to:</b>			
Equity shareholders of the Company		<b>229,669</b>	351,353
Non-controlling interests		<b>28,143</b>	5,395
		<u>                    </u>	<u>                    </u>
<b>Total comprehensive income for the period</b>		<b>257,812</b>	356,748
		<u>                    </u>	<u>                    </u>
<b>Earnings per share</b>	<b>6</b>		
Basic		<b>HK\$0.1906</b>	HK\$0.0910
		<u>                    </u>	<u>                    </u>
Diluted		<b>HK\$0.1906</b>	HK\$0.0907
		<u>                    </u>	<u>                    </u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2022 (unaudited)

(Expressed in Hong Kong dollars)

		At 30 June 2022		At 31 December 2021	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current assets</b>					
Property, plant and equipment			4,089,700		4,051,004
Right-of-use assets			321,313		331,387
Intangible assets			967,395		907,196
Interests in an associate			418,487		441,694
Deferred tax assets			28,918		30,930
Pledged bank deposits and fixed deposits			35,516		62,589
			<u>5,861,329</u>		<u>5,824,800</u>
<b>Current assets</b>					
Inventories		847,115		827,504	
Trade and bills receivables	7	2,313,965		2,023,941	
Prepayments, deposits and other receivables		239,670		299,811	
Pledged bank deposits and time deposits		94,282		70,928	
Cash and cash equivalents		1,625,224		1,661,736	
		<u>5,120,256</u>		<u>4,883,920</u>	
<b>Current liabilities</b>					
Borrowings		2,211,590		1,414,438	
Trade and bills payables	8	435,110		401,685	
Contract liabilities		53,502		94,333	
Lease liabilities		2,865		2,809	
Accruals and other payables		426,420		423,788	
Income tax payable		80,219		57,302	
		<u>3,209,706</u>		<u>2,394,355</u>	
<b>Net current assets</b>			<u>1,910,550</u>		<u>2,489,565</u>
<b>Total assets less current liabilities</b>			<u>7,771,879</u>		<u>8,314,365</u>

	<i>Note</i>	<b>At 30 June 2022</b>		<b>At 31 December 2021</b>	
		<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
<b>Non-current liabilities</b>					
Borrowings		<b>1,113,554</b>		1,688,757	
Lease liabilities		<b>354</b>		1,801	
Deferred tax liabilities		<b>22,969</b>		21,409	
Deferred revenue		<b>105,256</b>		109,690	
			<b><u>1,242,133</u></b>		<b><u>1,821,657</u></b>
<b>NET ASSETS</b>			<b><u>6,529,746</u></b>		<b><u>6,492,708</u></b>
<b>CAPITAL AND RESERVES</b> 9					
Share capital			<b>66,542</b>		66,741
Reserves			<b><u>6,143,336</u></b>		<u>6,152,122</u>
<b>Total equity attributable to equity shareholders of the Company</b>			<b><u>6,209,878</u></b>		<u>6,218,863</u>
<b>Non-controlling interests</b>			<b><u>319,868</u></b>		<u>273,845</u>
<b>TOTAL EQUITY</b>			<b><u>6,529,746</u></b>		<b><u>6,492,708</u></b>



## SELECTED NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

*(Expressed in Hong Kong dollars unless otherwise indicated)*

### 1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 29 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

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

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2021 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements. The Company’s annual consolidated financial statements for the year ended 31 December 2021 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2022.

### 2. Changes in accounting policies

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

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

None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. 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

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) 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 following reportable segments.

#### (a) Disaggregation of revenue

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

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Disaggregation by major products or service lines		
– Sales of pharmaceutical products	3,294,478	2,358,647
– Sales of medical materials	87,850	78,888
– Services income	3,377	770
– Sales of raw materials and by-products	18,691	4,359
	<u>3,404,396</u>	<u>2,442,664</u>
<b>Revenue from other source</b>		
– Rental income	117	126
	<u>3,404,513</u>	<u>2,442,790</u>
Disaggregated by geographical location of customers		
– The PRC (place of domicile)	2,850,800	2,246,131
– Other countries	553,713	196,659
	<u>3,404,513</u>	<u>2,442,790</u>

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b).

(b) *Information about profit or loss, assets and liabilities*

Disaggregation of revenue from contracts with customers by 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 period is set out below:

	<b>Six months ended 30 June 2022</b>			
	<b>Intravenous infusion solution and others HK\$'000</b>	<b>Medical materials HK\$'000</b>	<b>Unallocated HK\$'000</b>	<b>Total HK\$'000</b>
<b>Disaggregated by timing of revenue recognition</b>				
Point in time	3,310,586	90,433	–	3,401,019
Over time	3,377	117	–	3,494
Revenue from external customers	3,313,963	90,550	–	3,404,513
Inter-segment revenue	5,484	89,354	–	94,838
<b>Reportable segment revenue</b>	<b>3,319,447</b>	<b>179,904</b>	<b>–</b>	<b>3,499,351</b>
<b>Operating profit or loss/segment results</b>	<b>763,408</b>	<b>10,316</b>	<b>(17,401)</b>	<b>756,323</b>
Finance income	24,569	42	78	24,689
Finance costs	(28,714)	–	(9,162)	(37,876)
Share of profit of an associate	6,083	–	–	6,083
<b>Profit/(loss) before income tax</b>	<b>765,346</b>	<b>10,358</b>	<b>(26,485)</b>	<b>749,219</b>
Income tax	(135,465)	(2,278)	–	(137,743)
<b>Reportable segment profit/(loss) for the period</b>	<b>629,881</b>	<b>8,080</b>	<b>(26,485)</b>	<b>611,476</b>

## Six months ended 30 June 2021

	Intravenous infusion solution and others <i>HK\$'000</i>	Medical materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Disaggregated by timing of revenue recognition</b>				
Point in time	2,361,515	80,379	–	2,441,894
Over time	770	126	–	896
Revenue from external customers	2,362,285	80,505	–	2,442,790
Inter-segment revenue	10,013	81,542	–	91,555
<b>Reportable segment revenue</b>	<b>2,372,298</b>	<b>162,047</b>	<b>–</b>	<b>2,534,345</b>
<b>Operating profit or loss/segment results</b>	428,245	7,941	(76,646)	359,540
Finance income	8,044	31	368	8,443
Finance costs	(20,392)	–	(8,615)	(29,007)
<b>Profit/(loss) before income tax</b>	415,897	7,972	(84,893)	338,976
Income tax	(57,999)	(2,946)	–	(60,945)
<b>Reportable segment profit/(loss) for the period</b>	<b>357,898</b>	<b>5,026</b>	<b>(84,893)</b>	<b>278,031</b>

## At 30 June 2022

	Intravenous infusion solution and others <i>HK\$'000</i>	Medical materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	10,352,688	461,538	167,359	10,981,585
Reportable segment liabilities	3,358,099	43,433	1,050,307	4,451,839

## At 31 December 2021

	Intravenous infusion solution and others <i>HK\$'000</i>	Medical materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	10,209,569	414,280	84,871	10,708,720
Reportable segment liabilities	3,117,516	32,646	1,065,850	4,216,012

#### 4. Profit before taxation

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

##### (a) Finance income and costs

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Finance income:		
– Interest income on bank deposits	(15,386)	(13,248)
– Net foreign exchange (gain)/loss	(9,303)	4,805
	<u>(24,689)</u>	<u>(8,443)</u>
<b>Finance income</b>	<b>(24,689)</b>	<b>(8,443)</b>
Finance costs:		
– Interest expense of borrowings	39,463	31,130
– Interest on lease liabilities	74	152
Less: Interest expense capitalised into qualifying assets*	(1,661)	(2,275)
	<u>37,876</u>	<u>29,007</u>
<b>Finance costs</b>	<b>37,876</b>	<b>29,007</b>
<b>Finance costs – net</b>	<b>13,187</b>	<b>20,564</b>

\* During the six months ended 30 June 2022, the borrowing costs have been capitalised at a rate of 4.20% per annum (six months ended 30 June 2021: 4.75%).

##### (b) Other items

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Research and development costs	216,044	217,442
Less: Costs capitalised into intangible assets	(91,619)	(82,495)
	<u>124,425</u>	<u>134,947</u>
Loss on disposal of property, plant and equipment	757	251
Inventory write-down and losses	2,480	–
Government grants	(27,411)	(26,746)
Depreciation charges		
– owned property, plant and equipment	180,950	178,321
– right-of-use assets	5,715	5,711
Amortisation of intangible assets	11,395	9,076
Net gain on trading securities	–	(10,716)

## 5. Income tax

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000
Current tax – PRC corporate income tax (“CIT”)	137,942	71,965
Deferred taxation	(199)	(11,020)
	<u>137,743</u>	<u>60,945</u>

Shijiazhuang No. 4 Pharmaceutical Co., Ltd. (“Shijiazhuang No.4”), Jiangsu Best New Medical Material Co., Ltd. (“Jiangsu Best”), Hebei Guangxiang Pharmaceutical Co., Ltd. (“Hebei Guangxiang”) and Hebei Guolong Pharmaceutical Co., Ltd. have been certified as High and New Technology Enterprises (“HNTE”) in 2021, 2020, 2020 and 2020, respectively. According to the tax incentives rules of the CIT Law of the People’s Republic of China (the “CIT Law”) for High and New Technology Enterprises, these entities are subject to preferential 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.

Taxation for other entities of the Group is charged at their respective applicable income tax rates ruling in the relevant jurisdictions.

## 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\$570,056,000 for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$275,661,000) and the weighted average number of 2,990,288,000 ordinary shares (six months ended 30 June 2021: 3,028,502,000 ordinary shares) in issue during the interim period.



(b) *Diluted earnings per share*

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$570,056,000 for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$275,661,000) and the weighted average number of 2,990,288,000 ordinary shares for the six months ended 30 June 2022 (six months ended 30 June 2021: 3,038,110,000 ordinary shares after adjusting for the effects of dilutive potential ordinary shares under the Company's share option scheme), calculated as follows:

*Weighted average number of ordinary shares (diluted)*

	Six months ended 30 June	
	2022 '000	2021 '000
Weighted average number of ordinary shares at 30 June (basic)	2,990,288	3,028,502
Effect of deemed issue of shares under the Company's share option scheme	—	9,608
Weighted average number of ordinary shares at 30 June (diluted)	<u>2,990,288</u>	<u>3,038,110</u>

7. **Trade and bills receivables**

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

	30 June 2022 HK\$'000	31 December 2021 HK\$'000
Within 3 months	1,426,040	1,278,663
4 to 6 months	549,973	476,113
7 to 12 months	342,500	269,828
1 to 2 years	4,169	6,433
Over 2 years	3,781	3,173
Less: Loss allowance	<u>(12,498)</u>	<u>(10,269)</u>
	<u>2,313,965</u>	<u>2,023,941</u>

As at 30 June 2022, bills receivable of HK\$142,822,000 (31 December 2021: HK\$79,910,000) represent short-term bank acceptance bills 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 30 June 2022, 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 twelve 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. Bills receivable were therefore derecognised. As at 30 June 2022, 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 approximately HK\$506 million (31 December 2021: HK\$623 million).

## 8. Trade and bills payables

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

	<b>30 June</b> <b>2022</b> <b>HK\$'000</b>	31 December 2021 HK\$'000
Within 3 months	<b>394,412</b>	377,575
4 to 6 months	<b>33,241</b>	15,693
7 to 12 months	<b>3,798</b>	4,272
1 to 3 years	<b>2,947</b>	3,194
More than 3 years	<b>712</b>	951
	<b>435,110</b>	401,685

## 9. Capital, reserves and dividends

### (a) Dividends

#### (i) Dividends payable to equity shareholders attributable to the interim period

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Interim dividend declared and paid after the interim period, of HK6.0 cents per share (30 June 2021: HK5.0 cents per share)	<u>179,205</u>	<u>151,305</u>

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

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

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
Final dividend proposed after the end of the reporting period of HK7.0 cents per share (30 June 2021: HK5.0 cents per share)	<u>209,073</u>	<u>151,305</u>

The share premium account may be applied by the Company to pay distributions or dividends to the equity shareholders of the Company in accordance with the Company Law of the Cayman Islands.

### (b) Purchase and cancellation of own shares

During the six months ended 30 June 2022, the Company repurchased and cancelled a total of 9,938,000 (six months ended 30 June 2021: 17,626,000) ordinary shares of the Company through the Stock Exchange at an aggregate consideration of approximately HK\$36,193,000 (six months ended 30 June 2021: HK\$77,390,000).

### (c) Equity settled share-based transactions

No share options were granted during the six months ended 30 June 2022 (100,000,000 share options were granted to seven employees of the Group, at a consideration of HK\$1.00 in sum for each employee during the six months ended 30 June 2021).

No share options were exercised during the six months ended 30 June 2022 (30 June 2021: nil). As at 30 June 2022, the total number of share options outstanding and exercisable was 100,000,000 (31 December 2021: 100,000,000).

## 10. Acquisition of subsidiary

On 9 March 2022, an indirect wholly-owned subsidiary of the Company completed the acquisition of 100% interest in Cangzhou Lingang Youyi Chemical Co., Ltd. (“Youyi Chemical”) with a cash consideration of RMB55 million (equivalent to approximately HK\$68 million). Youyi Chemical is principally engaged in the production and sales of methylamine, which is one of the key raw materials for production of caffeine. The purpose of the acquisition was to guarantee the stability in supply and quality of such raw materials and may further lower the material cost of the Group.

The acquisition was accounted for under the acquisition method. As the allocation of purchase price to identifiable assets acquired and liabilities assumed of this acquisition at their respective fair values has not been completed by 30 June 2022, the items were reported in their provisional amounts in the interim financial statements.

The following table summarises the preliminary purchase price allocation of the fair value of the identifiable assets acquired and liabilities assumed in respect of the above acquisition of Youyi Chemical at the acquisition date.

	<i>HK\$'000</i>
Cash and cash equivalents	15,263
Trade and bills receivables	26,483
Prepayments, deposits and other receivables	428
Inventories	6,134
Property, plant and equipment	29,286
Right-of-use assets	10,485
Intangible assets	9,299
Trade and bills payables	(1,970)
Accruals and other payables	(11,879)
Income tax payable	(20,926)
Deferred tax liabilities	(3,594)
	<hr/>
Net identifiable assets	59,009
Goodwill	9,187
	<hr/>
Fair value of considerations	68,196
	<hr/>
Cash considerations paid	68,196
Cash acquired	(15,263)
	<hr/>
Net cash outflow	52,933
	<hr/> <hr/>

For the period from 9 March 2022 to 30 June 2022, Youyi Chemical contributed revenue of HK\$190,852,000 and profit of HK\$76,751,000 to the Group’s results. Had the acquisition occurred on 1 January 2022, management estimates that consolidated revenue would have been HK\$3,479,451,000 and consolidated profit would have been HK\$645,371,000 for the six months ended 30 June 2022. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2022.

## 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 and ampoule injection 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 six months ended 30 June 2022, the review on the Group’s business performance and financial performance are contained in the Chairman’s statement under section headed “II. 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 “III. PROSPECTS FOR DEVELOPMENT”.

### FINANCIAL PERFORMANCE REVIEW

#### Revenue

The Group’s intravenous infusion solution products and ampoule injection products are mainly manufactured and sold by Shijiazhuang No. 4 Pharmaceutical Co., Ltd. (“Shijiazhuang No. 4 Pharma”), a wholly-owned subsidiary in the Group. There are different forms of packing in intravenous infusion products, including Non-PVC Soft Bag, Upright Soft Bag, PP Plastic Bottle and Glass Bottle, while ampoule injection products are mainly small liquid injections in forms of PP plastic and glass. The Group’s bulk pharmaceuticals products are mainly manufactured and sold by Hebei Guolong Pharmaceutical Co., Ltd. (“Hebei Guolong”) and Hebei Guangxiang Pharmaceutical Co., Ltd. (“Hebei Guangxiang”), both subsidiaries in the Group. The Group’s medical materials are mainly manufactured and sold by Jiangsu Best New Medical Material Co., Ltd. (“Jiangsu Best”), a subsidiary in the Group.

Majority of the Group’s sales are conducted in the PRC. During the first half year of 2022, in terms of HK\$, revenue of the Group for the six months ended 30 June 2022 increased by 39.4% from HK\$2,442,790,000 in corresponding period of last year to HK\$3,404,513,000. Among which, revenue from intravenous infusion solution accounted for HK\$1,833,628,000 (30 June 2021: HK\$1,527,427,000), representing an increase of 20.0% as compared with corresponding period of last year. Among which, revenue from Non-PVC Soft Bag and Upright Soft Bag Infusion Solution were HK\$972,976,000 and HK\$340,057,000 respectively, totalling HK\$1,313,033,000, representing an increase of 24.1% as compared with corresponding period of last year and accounted for 71.6% of revenue from intravenous infusion solution; revenue from PP Plastic Bottle Infusion Solution was HK\$403,510,000, representing an increase of 11.8% as compared with corresponding period of last year and accounted for 22.0% of revenue from intravenous infusion solution; revenue from Glass Bottle Infusion Solution was HK\$117,086,000, representing an increase of 8.2% as compared with corresponding period of last year and accounted for 6.4% of revenue from intravenous infusion solution.

On the other hand, the Group has put a lot of effort in product diversification. Revenue from ampoule injections accounted for HK\$510,665,000 (30 June 2021: HK\$487,798,000), representing an increase of 4.7% as compared with corresponding period of last year. Revenue from bulk pharmaceuticals accounted for HK\$776,609,000 (30 June 2021: HK\$246,878,000), representing a significant increase of 214.6% as compared with corresponding period of last year mainly due to an increase in the utilization in the Group's production capacity in bulk pharmaceuticals and a larger variety of the Group's bulk pharmaceuticals products.

The Group will keep focusing its production in high quality intravenous infusion solution products such as Non-PVC Soft Bag infusion solution and therapeutic infusion solution. The Group will also keep expanding its market in ampoule injections, bulk pharmaceuticals, oral preparations and new medical material products to drive revenue growth.

Revenue from medical materials products contributed HK\$90,550,000 (30 June 2021: HK\$80,505,000) to the Group, representing an increase of 12.5% as compared with corresponding period of last year mainly due to continuous recovery of the medical material market.

### **Cost of sales**

The Group has been adopting various cost control measures such as production process optimization, equipment modification and energy conservation. Nevertheless, due to increase in sales volume and under a general trend of rising costs in production, the Group's cost of sales increased by 50.6% to HK\$1,465,066,000 for the six months ended 30 June 2022 as compared to the corresponding period last year of HK\$973,075,000. The cost of direct materials, direct labour and other costs represented approximately 63.3%, 10.6% and 26.1% of the total cost of sales respectively, while their comparative percentages for the corresponding period last year were 54.9%, 15.0% and 30.1% respectively.

### **Gross profit margin**

For the six months ended 30 June 2022, the Group recorded a total gross profit of HK\$1,939,447,000 (30 June 2021: HK\$1,469,715,000). Overall gross profit margin decreased by 3.2 percentage point to 57.0% for the six months ended 30 June 2022 from 60.2% for the corresponding period last year, which was mainly due to a general trend of rising costs in production and an increased proportion of revenue from bulk pharmaceuticals which had a lower gross profit margin as compared to finished medicines.

### **Other net income**

For the six months ended 30 June 2022, the Group's other net income decreased to approximately HK\$28,711,000 (30 June 2021: HK\$40,566,000) which mainly represented government grants.



## **Selling and distribution costs**

For the six months ended 30 June 2022, selling and distribution costs amounted to approximately HK\$933,182,000 (30 June 2021: HK\$862,274,000), which mainly consisted of advertising, marketing and promotion expenses of approximately HK\$651,277,000 (30 June 2021: HK\$570,371,000), transportation cost of approximately HK\$181,872,000 (30 June 2021: HK\$208,018,000) as well as salary expenses for sales and marketing staff of approximately HK\$34,091,000 (30 June 2021: HK\$32,659,000).

Selling and distribution expenses increased by 8.2% for the six months ended 30 June 2022 as compared with corresponding period of last year mainly due to increase in sales volume as compared to the first half of year 2021. Such increase was lower than revenue growth as compared with corresponding period of last year because of (i) an increased proportion of revenue from bulk pharmaceuticals which had a lower level of selling costs as compared to finished medicines and (ii) a lower level of promotion expenses of finished medicines.

## **General and administrative expenses**

For the six months ended 30 June 2022, general and administrative expenses was approximately HK\$151,434,000 (30 June 2021: HK\$153,520,000) which mainly comprised of salaries expenses for administrative staff of approximately HK\$61,042,000 (30 June 2021: HK\$80,999,000 including a one-off non-cash expense arising from grant of share options to administrative management staff of HK\$28,161,000) as well as depreciation and amortisation (other than research and development) expenses of approximately HK\$44,911,000 (30 June 2021: HK\$42,131,000).

A slight drop of 1.4% in general and administrative expense as compared with corresponding period last year was mainly because there was no grant of share options for the six months ended 30 June 2022.

## **Research and development costs**

For the six months ended 30 June 2022, research and development costs (“R&D”) amounted to HK\$124,425,000 (30 June 2021: HK\$134,947,000), which comprised salaries expenses for R&D staff of approximately HK\$48,858,000, depreciation and amortisation expenses of approximately HK\$29,456,000 as well as other costs directly expensed of approximately HK\$46,111,000.

Research and development cost decreased by 7.8% as compared with corresponding period of last year mainly due to a one-off non-cash expense arising from grant of share options to R&D management staff of approximately HK\$36,878,000 in last year. Excluding the factor of grant of share options, research and development costs continued to increase as the Group expanded and expedited the R&D of new products.

## **Profit from operations**

For the six months ended 30 June 2022, the Group's profit from operations amounted to HK\$756,323,000, representing an increase of 110.4% as compared to HK\$359,540,000 of the corresponding period last year. The operating profit margin (defined as profit from operations divided by total revenue) increased to 22.2% from 14.7% of the corresponding period last year.

## **Finance costs — net**

The Group's net finance costs, which represented mainly interest expenses of bank borrowings and foreign exchange loss less interest income on bank deposits, decreased by 35.9% to HK\$13,187,000 for the six months ended 30 June 2022 (30 June 2021: HK\$20,564,000) mainly due to a net foreign exchange gain as compared to a net foreign exchange loss in the corresponding period last year.

## **Income tax expense**

The Group believes that Shijiazhuang No. 4 Pharma, Jiangsu Best, Hebei Guangxiang and Hebei Guolong have been certified as High and New Technology Enterprises and thus subject to a reduced corporate income tax of 15% in the PRC for both 2022 and 2021. For the six months ended 30 June 2022, the income tax expense increased by 126.0% to HK\$137,743,000 (30 June 2021: HK\$60,945,000) mainly due to a higher profit before taxation of the Group.

## **Profit attributable to equity shareholders**

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2022 increased by 106.8% to HK\$570,056,000 (30 June 2021: HK\$275,661,000), with net profit margin (defined as profit attributable to equity shareholders of the Company divided by total revenue) increased to 16.7% from 11.3% of the corresponding period 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 30 June 2022, the Group's cash and cash equivalents slightly decreased to HK\$1,625,224,000 (31 December 2021: HK\$1,661,736,000), mostly denominated in Renminbi ("RMB").

As at 30 June 2022, the Group's bank borrowings increased to HK\$3,325,144,000 (31 December 2021: HK\$3,103,195,000), comprising HK\$1,863,913,000 (31 December 2021: HK\$1,700,772,000) of borrowings denominated in RMB and HK\$1,461,231,000 (31 December 2021: HK\$1,402,423,000) in Hong Kong dollars. As at 30 June 2022, all of the Group's bank borrowings were repayable within 5 years, mostly bearing interest at variable rates.

Gearing ratio (defined as bank borrowings and lease liabilities less cash and cash equivalents divided by total capital less non-controlling interests) increased from 18.9% as at 31 December 2021 to 21.5% as at 30 June 2022 mainly due to a higher level of bank borrowings. Current ratio (defined as current assets divided by current liabilities) decreased from 2.04 as at 31 December 2021 to 1.60 as at 30 June 2022 mainly due to a larger amount of bank borrowings which is repayable within one year.

As at 30 June 2022, the Group's total capital commitments outstanding but not provided for was HK\$519,004,000 (31 December 2021: HK\$589,477,000).

Overall, the Group continued to maintain a sound liquidity position, a sufficient working capital level and a low-risk capital structure in view of the Group's operation needs and capital commitments.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 June 2022, the Group had approximately 4,800 employees (approximately 4,700 employees as at 30 June 2021), 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 overriding objective of the remuneration policy of executive Directors and senior management is to provide the packages needed to attract, retain and motivate executive Directors and senior management of the quality required to run the Company successfully, without paying more than necessary. 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 the six months ended 30 June 2022 was approximately HK\$299,452,000 (30 June 2021: HK\$336,597,000 including a one-off non-cash expense of approximately HK\$67,050,000 arising from grant of share options to management staff of the Group).

## **CHARGE ON ASSETS**

As at 30 June 2022, the Group's right-of-use assets of HK\$51,766,000 (31 December 2021: HK\$54,746,000) were pledged as collateral for the Group's certain bank borrowings.

## **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 the following dates, the exchange rates of converting Hong Kong dollars into RMB (as calculated in Hong Kong dollars) were:

1 January 2021	0.84164
30 June 2021	0.83208
1 January 2022	0.81760
30 June 2022	0.83097

## **MATERIAL ACQUISITIONS AND DISPOSALS**

On 9 March 2022, Shijiazhuang No. 4 Pharma (an indirect wholly-owned subsidiary of the Company) completed the acquisition of 100% interest in Cangzhou Lingang Youyi Chemical Co., Ltd. ("Youyi Chemical") with a cash consideration of RMB55 million. Youyi Chemical is principally engaged in the production and sales of methylamine, which is one of the key raw materials for production of caffeine. The purpose of the acquisition was to guarantee the stability in supply and quality of such raw materials and may further lower the material cost of the Group.

Save as disclosed above, there was no material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2022.

## **CONTINGENT LIABILITIES**

As at 30 June 2022, the Group did not have any significant contingent liabilities.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

The Board considers that purchase of its shares by the Company under suitable market condition and funding arrangement will enhance net asset value and/or earnings per share of the Company, and thus will benefit the Company and the shareholders as a whole. Save for the purchase of 9,938,000 shares which details are set out in the next paragraph, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the six months ended 30 June 2022.

During the six months ended 30 June 2022, the Company acquired an aggregate of 9,938,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) at an aggregate consideration of HK\$36,193,000 which details are set out below. As at 30 June 2022, all of the 9,938,000 shares have been cancelled.

<b>Date of the purchases</b>	<b>Total number of the ordinary shares purchased</b>	<b>Highest price paid per share (HK\$)</b>	<b>Lowest price paid per share (HK\$)</b>	<b>Aggregate consideration (HK\$)</b>
24 January 2022	1,500,000	3.76	3.71	5,635,000
25 January 2022	924,000	3.65	3.59	3,360,000
27 January 2022	2,086,000	3.54	3.41	7,272,000
30 March 2022	370,000	3.35	3.27	1,230,000
31 March 2022	570,000	3.46	3.43	1,974,000
1 April 2022	778,000	3.50	3.44	2,712,000
7 April 2022	1,100,000	3.79	3.78	4,181,000
8 April 2022	1,610,000	3.75	3.68	6,017,000
19 April 2022	1,000,000	3.83	3.75	3,812,000
	<u>9,938,000</u>			<u>36,193,000</u>

## 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 under 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. All of the share options granted on 19 October 2015 have been exercised.

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 2020, 32,000,000 share options were exercised by Mr. Qu Jiguang and, as a result, 32,000,000 ordinary shares of the Company was issued. All of the share options granted on 15 April 2016 have been exercised.



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.

On 12 January 2021 (the “Date of Grant“), the Company granted 100,000,000 share options to certain management staff of the Group who are not the Directors of the Company at the Date of Grant under Share Option Scheme, representing approximately 3.285% of the issued share capital as at the date immediately before share options were granted. The exercise price was HK\$4.218. The exercisable period was from 12 January 2021 to 11 January 2026. Subsequent to the Date of Grant, two grantees namely Mr. Meng Guo and Mr. Chow Hing Yeung were appointed as executive directors of the Company on 27 August 2021. During the period of six months ended 30 June 2022 and up to date of this interim results announcement, all of the 100,000,000 share options remain outstanding and exercisable.

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

	<b>Six months ended 30 June 2022</b>	Year ended 31 December 2021
Outstanding at the beginning of the period/year	<b>100,000,000</b>	—
Granted during the period/year	—	100,000,000
Exercised during the period/year	—	—
Lapsed during the period/year	—	—
	<hr/>	<hr/>
Outstanding and exercisable at the end of the period/year	<b><u>100,000,000</u></b>	<b><u>100,000,000</u></b>

As at 30 June 2022, the share options granted under Share Option Scheme and remained outstanding had an weighted average exercise price of HK\$4.218 and a remaining contractual life of approximately 3.53 years. Assuming that all share options outstanding as at 30 June 2022 are exercised, the Company will receive proceeds of HK\$421,800,000.

## **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.

Since the adoption of the Restricted Share Award Scheme and as at 30 June 2022, no share has been purchased by the trustee and no share has been awarded to any Selected Participants pursuant to the Restricted Share Award Scheme.

## **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 29 August 2022, and at all times during the six months ended 30 June 2022.

## **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 six months ended 30 June 2022.

## **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 complied with all applicable code provisions of 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") throughout the six months ended 30 June 2022, except for the deviation from code provision C.2.1 of the CG code as follows:

Under code provision C.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Qu Jiguang has been appointed as the chairman of the Board, who has the principal role of providing the leadership for and effective running of the Board. In view of the present composition of the Board and the in-depth knowledge of Mr. Qu Jiguang in the Company's operations and pharmaceutical industry, 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 Board believes that it is in the best interest of the Company to vest both roles in Mr. Qu Jiguang, which allows 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.

## **INDEPENDENT REVIEW OF AUDITORS**

The interim financial report for the six months ended 30 June 2022 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report.

## **AUDIT COMMITTEE**

The Audit Committee of the Company has reviewed and approved the interim financial information of the Group for the six months ended 30 June 2022 as contained in this interim results announcement.

## **INTERIM DIVIDEND**

The Directors resolved to pay on 30 September 2022 an interim dividend of HK6 cents per share (30 June 2021: HK5 cents per share) amounting to a total of approximately HK\$179,205,000 for the six months ended 30 June 2022 to the shareholders named in the register of members of the Company on 19 September 2022.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Tuesday, 20 September 2022 to Friday, 23 September 2022 (both days inclusive), during which period, no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Monday, 19 September 2022.

## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This interim results announcement is published on the Company's website ([www.ssygroup.com.hk](http://www.ssygroup.com.hk)) and on the website of Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)). The interim 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 to the Group.

On behalf of the Board

**Qu Jiguang**

*Chairman*

Hong Kong, 29 August 2022

*As at the date of this announcement, the Board comprises Mr. Qu Jiguang, Mr. Su Xuejun, Mr. Meng Guo and Mr. Chow Hing Yeung 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.*