

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2022

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of SSY Group Limited (the "Company"), I hereby present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2022.

I. RESULT AND DIVIDEND DISTRIBUTION

In 2022, in response to the recurring novel coronavirus epidemic outbreak and the further implementation of reform to the National Centralised Medicines Procurement, the Group focused on demand from domestic and international markets, took the initiative to overcome challenges, efficiently coordinated the allocation of market resources, and strengthened the market expansion of dominant preparations, key preparation types, commodity bulk pharmaceuticals and medical materials products. The Group also persistently optimised its product mix and placed great emphasis on the marketing of new featured products, leading to a new progress in market shares and sales volume as well as a continuously and consistently favourable performance in overall operation. Revenue of the Group has set another record high.

In 2022, the Group achieved a revenue of HK\$6,434 million, representing an increase of approximately 20% as compared to last year, and the gross profit margin of the same period was 55.4%, representing a decrease of 3.8 percentage points as compared to last year mainly due to an increased proportion of revenue from bulk pharmaceuticals which also led to a decrease in the selling expenses. The net profit was HK\$1,123 million, representing an increase of approximately 43% as compared to last year.

The Directors resolved to pay a final dividend of HK\$0.08 per share on 7 June 2023 to the shareholders named in the register of members of the Company on 24 May 2023. Total dividends for the year were HK\$0.14 per share, representing an increase of approximately 17% compared to last year.

II. BUSINESS REVIEW

For the year ended 31 December 2022, revenue of the Group amounted to approximately HK\$6,434,025,000, representing an increase of 20.1% as compared to HK\$5,356,763,000 in last year. A breakdown of revenue of the Group for the year ended 31 December 2022 is set out as follows:

	2022		2021		Increase/ (Decrease) %
	Sales <i>HK\$'000</i>	Percentage of sales %	Sales <i>HK\$'000</i>	Percentage of sales %	
Intravenous infusion solution and others	6,261,906	97.3	5,179,586	96.7	20.9
(Including: Non-PVC soft bag & upright soft bag infusion solution	2,436,412	37.9	2,312,295	43.2	5.4
PP plastic bottle infusion solution	839,750	13.0	764,057	14.2	9.9
Glass bottle infusion solution	234,180	3.7	228,013	4.3	2.7
Bulk pharmaceuticals	1,358,949	21.1	533,860	10.0	154.6
Ampoule injection	978,707	15.2	1,093,615	20.4	(10.5)
Others)	413,908	6.4	247,746	4.6	67.1
Medical materials	172,119	2.7	177,177	3.3	(2.9)
Total	6,434,025	100	5,356,763	100	20.1

(1) Sales of Products

During the year, the Group's diversification in business development has shown a prominent result. While maintaining the continuous development of intravenous infusion solution business, the Group made full use of market access opportunities, such as national and provincial municipal centralised medicines procurement, and quickly introduced more solid preparations and small liquid injection products into the market. The business of solid preparations and small liquid injections achieved rapid growth. The bulk pharmaceuticals business achieved scale operation for the first year, and the production industrial chain was further extended. The Group has formed a sound pattern for the diversified and balanced development of bulk pharmaceuticals, various types of pharmaceutical preparations and medical materials. The strategic advantages of "bulk pharmaceuticals+preparations" integration model were gradually emerging.

The Group continued to increase its market shares of the intravenous infusion solution business and solidify its leading position in the market with an aggregate sales volume reaching 1,580 million bottles (bags), representing an increase of approximately 16% as compared to last year. The product mix was improved, and various key therapeutic products entered a period of rapid growth. In particular, sales volume of Peritoneal Dialysis Solution products reached 3.79 million bags, representing an increase of 77% as compared to last year; sales volume of Ambroxol Hydrochloride and Sodium Chloride Injection reached approximately 15.10 million bottles (bags), representing an increase of approximately 1,694% as compared to last year; sales volume of Moxifloxacin Hydrochloride reached approximately 5.16 million bags, representing an increase of approximately 314% as compared to last year; sales volume of Ciprofloxacin Lactate reached approximately 13.59 million bottles (bags), representing an increase of approximately 111% as compared to last year.

Ampoule injections product line has become a powerful boost and new growth driver for the Group's injection business as it has become increasingly rich in varieties with its production and sales gradually scaled up. The Group's injection products including Ambroxol Hydrochloride, Doxofylline, Ropivacaine Hydrochloride and Bromhexine Hydrochloride were successively included for National Centralised Medicines Procurement, forming a new growth point for the Group's ampoule products to achieve rapid breakthrough in scale operation. Efforts have been made to accelerate the market expansion of new ampoule products including Terbutaline Sulfate Nebuliser Solution, Dexmedetomidine, Adenosine Cyclophosphate and Levofloxacin Lactate, which have promising market prospect. In addition, Moxifloxacin Hydrochloride Eye Drops, the first ophthalmological liquid preparation of the Group, has been approved and launched to the market, filling the Group's gap in this preparation category. In 2022, sales volume of ampoule products of the Group was approximately 160 million, representing an increase of approximately 49% as compared to last year, which maintained a relatively fast growth momentum.

Solid preparations business has sped up the upgrading of its product mix and production and sales scale, delivering a steady and positive operating performance. In line with the national and local centralised medicines procurement policies, the Group made coordinated efforts to secure market supply of tender-awarded products such as Cefaclor for Suspension, Cefdinir capsule and Prucalopride Succinate tablet. At the same time, through a series of measures including adjusting market layout and stepping up promotion among professionals, the Group strengthened commercial cooperation with top 100 chain drug stores, so as to promote and expand the market of Blonanserin tablets, Azithromycin for Suspension (both being the first approval of such type for PRC pharmaceutical entities) and new product Rosuvastatin Calcium tablet (5mg), which further improved the product accessibility and brand penetration. According to the market demand, the Group made timely adjustment to production of its products to effectively cater to market needs, which bolstered the sales of solid preparations. During the year, solid preparations products of the Group achieved revenue of HK\$346 million, representing an increase of approximately 62% as compared to last year.

Bulk pharmaceuticals business achieved a relatively fast growth. After the Group's continuous optimisation of production process and enhancement of treatment capacity for environmental protection, the advantages such as in quality and in cost were further demonstrated. Together with the increased demands in both domestic and international markets, the premium production capacities were realised quickly. As a vertical integration, the Group acquired Cangzhou Lingang Youyi Chemical Co., Ltd. near the beginning of the year, significantly improving the coordination between upstream and downstream entities of the industrial chain and remarkably driving the profitability of the Group's bulk pharmaceuticals business. During the year, revenue of bulk pharmaceuticals was HK\$1,360 million, representing an increase of approximately 155% as compared to last year. Caffeine achieved an aggregate sales volume of approximately 5,000 tonnes, representing an increase of approximately 81% as compared to last year, supplying mainly to markets including America, Europe and Asia. Sales volume of Metronidazole to external customers reached 266 tonnes, representing an increase of approximately 76% as compared to last year. Sales volume of Nifedipine reached 62 tonnes, representing an increase of approximately 150% as compared to last year. Sales volume of Azithromycin reached 206 tonnes, which was basically at the same level as that of last year. With the Group's continuous efforts in the bulk pharmaceuticals business, the product mix has become increasingly diversified. A number of new specialised bulk pharmaceuticals products with high added value, such as newly approved products, including Epalrestat, Pitavastatin Calcium, Rosuvastatin Calcium, Lacosamide, Theobromine, Pentoxifylline, Levornidazole, Ornidazole, Argatroban, Terbutaline Sulfate, Ipratropium Bromide, Cinacalcet Hydrochloride, Lurasidone Hydrochloride, Dexmedetomidine Hydrochloride, Blonanserin and Linezolid, have been put into commercial production, injecting new fuel for the sustainable development of the Group's bulk pharmaceuticals business. At present, three entities of the Group in bulk pharmaceuticals have all been recognised as High and New Technology Enterprises as well as provincial level "Specialised and New" small and medium-size enterprises (「專精特新」中小企業).

Production and sales of medical materials were steady. Leveraging on its transition to the “Innovative Layer” of the National Equities Exchange and Quotations, and following the multi-layer coextrusion bioprocessing films project with an annual production capacity of 20 million square meters has been completed and put into production, Jiangsu Best New Medical Material Co., Ltd. (“Jiangsu Best New Medical Material”) extended efforts to update its product technology and continued to expand its market shares of key medical materials products including butyl rubber stoppers, inserts and multi-layer co-extrusion films. Meanwhile, it continued to step up efforts in the research and development of and marketing promotion for quality high-end medical (pharmaceutical) packaging materials with special application scenarios and industry foresight, strengthened the complementarity between its key products and the industrial chain, and proactively enhanced the partnerships with a number of large pharmaceutical groups, laying a solid market foundation for quality enhancement and efficiency improvement. During the year, Jiangsu Best New Medical Material recorded a revenue of HK\$172 million from external sales, representing a decrease of approximately 3% as compared to last year. Jiangsu Best New Medical Material has been approved as a provincial level “Specialised and New” small and medium-size enterprise (「專精特新」中小企業) during the year, further strengthening its leadership position in the industry in terms of innovation demonstration capacity.

Exports of preparations to foreign countries had a positive trend. In 2022, export market of the Group’s preparations showed a trend of rebound, resulting in the continuous recovery of export markets with significant growth in major export regions of Asia and Africa markets. The export of preparations for the year recorded a revenue of approximately HK\$149 million, representing an increase of approximately 78% as compared to last year. Sales volume of infusion solutions exported was approximately 100 million bottles, representing an increase of approximately 88% as compared to last year. During the year, the Group continued to develop and maintain good relationship with international customers and carry out overseas product registration, adding and updating 44 product registration certificates in 11 countries. Currently, the Group has obtained 341 product registration certificates in over 100 countries.

(2) Research and Development of New Products

By using market demands as the guide and adhering to the principle of “combination of generic and innovative drugs”, the Group maintained its intensity in research and development investment, so as to constantly improve its gradient product development system. The Group also made coordinated efforts to push forward the research and development progress of featured generic drugs, bulk pharmaceuticals, innovative drugs, medical materials as well as product types under consistency evaluation, thereby further consolidating and enhancing its core development advantages. In 2022, research and development of featured generic drugs of the Group ranked top of the peers in the PRC in terms of the number of approvals and applications, further enriching its product portfolio and providing a strong driving force for the Group’s progressive development.

During the year, a total of 37 national production approvals were obtained for various products, among which four product types including Pentoxifylline Injection, Blonanserin Tablets, Azithromycin for Suspension and Peritoneal Dialysis Solution (Lactate-G1.5%) were the first passing such evaluation in the PRC. Paracetamol and Mannitol Injection (100 ml: 1,000mg) was the first of the same specification approved for fever relieving in the PRC; Fluconazole Sodium Chloride Injection (50 ml specification) was the first approval in the PRC; and Metronidazole Sodium Chloride Injection in plastic bottles and upright bags was the first multi-packaging materials passing the consistency evaluation in the PRC. A number of product types including Moxifloxacin Hydrochloride Eye Drops, Ipratropium Bromide Solution for Inhalation, Valsartan and Amlodipine Tablets (I) and Cefaclor for Suspension were approved for production, further enriching the Group's preparation product portfolio. In addition, nine bulk pharmaceuticals such as Pentoxifylline and Levornidazole were approved for production, ensuring the supply of bulk pharmaceuticals for preparation production effectively.

The Group accelerated the research and development of innovative drugs and achieved positive progress in the Phase I clinical trial of type I chemical innovative anti-tumor drug NP-01 project, which demonstrated favourable observations in terms of tolerability and safety and showed preliminary efficacy in treating gallbladder cancer and gastrointestinal cancer. Phase II clinical trial is expected to be conducted in July 2023. The pre-clinical pharmaceutical research of the anti-liver fibrosis type I chemical innovative drug ADN-9 was completed, and efforts have been made to complete the data of the pre-clinical trial such as on efficacy, pharmacokinetics and safety appraisal, with an aim to commence Phase I clinical trial in the second half of 2023. The Group has carried out research on compounds and preparations for the anti-pulmonary hypertension drug SYN-045 and the anti-epileptic innovative drug QO-83, and conducted comprehensive trials for their pharmacodynamics as well as acute toxicity and chronic toxicity on animals, aiming to complete the pre-clinical research and file investigational new drug (IND) application by 2023.

Research results of products for passing consistency evaluations were prominent. During the year, with four products including Pentoxifylline Injection, Blonanserin Tablet, Azithromycin Dry Suspension and Peritoneal Dialysis Solution (lactate-G1.5%) becoming the first of their respective types to pass the consistency evaluations within the industry, the Group has products of 38 types with 50 specifications passed the consistency evaluation or been regarded as passing the consistency evaluation, laying a solid foundation for the optimisation of product mix, enhancement of market competitiveness and improvement of profitability.

The Group has achieved new results in innovation platform construction and talent cultivation. Based on industry demands and company positioning, the Group leveraged on the collaborative innovation mechanism with relevant renowned universities and scientific research institutes which integrated production, education, research and application, and 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 the 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. The Group cooperated with China Pharmaceutical University to establish a university-level practice base for professional degree postgraduate in order to proactively explore useful experiences in talent cultivation and recruitment.

Combining with fundamental and innovative researches, the protection of intellectual property rights is achieved at the same pace. As at 31 December 2022, the Group has cumulatively applied for 361 patents and received authorisation for 106 local invention patents in the PRC and 6 international invention patents.

(3) Development of Projects

Keeping abreast of the industrialisation of research and development achievements and riding on the development of fundamental projects, the Group upheld the development principle of “priority to quality, innovation, intelligence and energy conservation”, and made coordinated efforts to push forward the fundamental construction projects for production such as lyophilized, emulsion and large-size soft bags as well as the development of new and extending projects including the new preparation products and the biopharmaceutical industrial park of Hebei Guolong Pharmaceutical which are the provincial and municipal-level key projects. With the support from governments at all levels, the ongoing, extending and new technology improvement projects are progressing as scheduled, with the lyophilized and emulsion production lines as well as the production workshops for new preparations and specialised bulk pharmaceuticals in the biopharmaceutical industrial park of Hebei Guolong Pharmaceutical entering into equipment and facility installation and commissioning stage. The newly-built production line of oral solid preparations is ready for production and processing, while the two newly-built production lines of glass ampoule injection have passed the GMP certification. In addition, the multi-layer co-extrusion bioprocessing film project of Jiangsu Best New Medical Material with an annual production capacity of 20 million square meters has also completed construction and was put into production in July 2022, providing a solid foundation for overall improvement of market supply capability.

(4) Capital Operation

In accordance with the Group's development made in business direction and capital market, the Group has acquired the whole equity interest in Cangzhou Lingang Youyi Chemical Co., Ltd. in March 2022 as a vertical integration, 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 production of caffeine for the caffeine industrial chain. Meanwhile, Jiangsu Best New Medical Material made positive progress in its listing, and its shares were officially quoted on the "Innovative Layer" of the National Equities Exchange and Quotations on 7 July 2022, entering into a new phase for the integrated development of product market and capital market.

III. PROSPECTS FOR DEVELOPMENT

Looking forward to 2023, following the lifting of the pandemic restrictions, gradual improvement in the economic situation and recovery in market activities are expected. The pharmaceutical industry will continue to show tremendous potential and great vitality. With strong support from various advantages and favourable conditions, the long-term growth in economic fundamentals will remain unchanged. The Group will strongly capitalise on this development trend and continue to enhance technology innovation as well as the resilience of the industrial chain and supply chain, with an aim to expand its operation advantages and to facilitate the dual circulation of domestic and international markets, so that the high quality and high-speed development of the Group will be maintained.

1. On the preparations business, the Group will strive to maintain and consolidate its existing market in the intravenous infusion solution, optimise the product mix of the intravenous infusion solution, improve its room of profitability and maintain its leading position in the market. In 2023, the sales volume in the business plan of intravenous infusion is targeted at no less than 1,800 million bottles (bags), representing an increase of approximately over 14% as compared to last year and maintaining a moderate growth. The Group has started new construction of two production lines of upright soft bag in a timely manner in view of market demands, with additional production capacity of 600 million bags annually. By adopting a vast amount of new technologies and facilities, the production lines will turn to be the most advanced model of intelligent manufacturing and digital transformation in the industry.

The Group will improve the sales proportion of therapeutic infusion products, and focus to increase the sales volume of key therapeutic infusion products such as Peritoneal Dialysis Solution, Levofloxacin Lactate, Sodium Bicarbonate, Ambroxol Hydrochloride, Tinidazole, Fluconazole, Moxifloxacin Hydrochloride and Ciprofloxacin Lactate. Efforts will be made to achieve new breakthroughs for the key types of infusion products with revenue of over RMB100 million such as Metronidazole, Mannitou and Peritoneal Dialysis Solution.

Meanwhile, the Group will prioritise efforts to expand and optimise its existing market in solid preparations and ampoule injections. In 2023, the Group will make an in-depth and better systematic analysis on the national and local centralised medicines procurement policies, and seize good opportunity for precise market access with a key focus on price. Capitalising on the radiation and driving effects of the Group Purchasing Organisation Programme, the Group will strive to increase market shares and expand the proportion of high value-added products in terms of production and sales. With an aim to nurture new advantages and seize new opportunities arising from the national industry policy and market changes, the Group will make full use of its innovation achievements in the research and development of solid preparations, ampoule injections, lyophilized powder and other types of products. The Group will put its full effort in implementation the tender-awarded products under the seventh round of National Centralised Medicines Procurement, and seize the market opportunities arising from the eighth round of National Centralised Medicines Procurement. Furthermore, the Group will optimise channel network and market layout, strengthen professional marketing services, step up efforts in market development for specialised products such as Felodipine Sustained-release Tablets, Blonanserin Tablets, Pentoxifylline Injection as well as Paracetamol and Mannitol Injection, and proactively explore and nurture new types of products that have a potential revenue of over RMB100 million.

Keeping abreast of the changes in market demands, the Group will accelerate the domestic promotion and application of medical (pharmaceutical) material products including butyl rubber stoppers, infusion films and bioprocessing films, so as to increase its market shares and strengthen the Group's position and product influence in the pharmaceutical materials aspect, creating favourable conditions for the transition of listing of the medical (pharmaceutical) material business.

2. On the bulk pharmaceuticals business, the Group will facilitate the domestic and international markets, make efforts to strengthen and expand its bulk pharmaceuticals business, and 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 in 2023, the Group will devote more efforts to explore domestic customers while stabilising 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 commodity and specialised bulk pharmaceuticals. The Group will accelerate the commercialisation process of new high value-added products such as Epalrestat, Pitavastatin Calcium, Lacosamide, Theobromine, Pentoxifylline, Ornidazole, Levornidazole, Rosuvastatin Calcium and Argatroban, and continue to nurture the resilience and vitality for the development of bulk pharmaceuticals business, in an effort to achieve substantial increase in sales revenue of specialised bulk pharmaceuticals.

3. In terms of research and development of new product, efforts will be made to achieve new breakthroughs in accelerating 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 Group will leverage on the cooperation mechanism with universities and scientific research institutes, re-organise the product types in its pipeline and plan, explore more high quality research projects, and maintain its advantages in the efficiency of approvals and applications for research and development. We will facilitate effective translation of our research and development achievements into production, and create a good head start to win the market for high quality products. In 2023, the Group will strive to obtain national production approval for 82 products including 39 for liquid preparations, 21 for solid preparations and 22 for bulk pharmaceuticals. Efforts will be made to achieve new breakthroughs and new progress in key research and development projects, continuing to empower high-quality development of the Company with innovation achievements.
4. In terms of capital operation, the Group will continue to proactively push forward the transition of listing of Jiangsu Best New Medical Material and the spinoff listing of the bulk pharmaceuticals business 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. In 2023, Jiangsu Best New Medical Material will follow the requirements under the listing rules of the Beijing Stock Exchange in order to complete its transition to Beijing Stock Exchange based on scheduled timeline to be agreed with various intermediaries. It is committed to accelerating its upgrade to the A-share market of the Beijing Stock Exchange with better performance in its development. The spinoff listing of the bulk pharmaceuticals business in the PRC is progressing as scheduled.

By leveraging on its own advantages, the Group will seize new opportunities in the industry development, maintain the resilience and vitality of innovative development, and strive for promoting high quality development of the Group. We firmly believe that, by virtue of our scale, quality, management and brand advantages accumulated in the industry over the years and our continuous stimulation of innovation momentum, we will definitely bring satisfactory returns to our investors with a more solid development performance.

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 2022

(Expressed in Hong Kong dollars)

	Note	2022 HK\$'000	2021 HK\$'000
Revenue	3	6,434,025	5,356,763
Cost of sales		<u>(2,866,439)</u>	<u>(2,186,517)</u>
Gross profit		3,567,586	3,170,246
Other income		65,176	84,291
Selling and distribution costs		(1,660,247)	(1,707,028)
General and administrative expenses		(284,832)	(309,941)
Research and development costs		(259,104)	(247,992)
Provision for impairment loss on trade, bill and other receivables		<u>(4,866)</u>	<u>(1,491)</u>
Profit from operations		1,423,713	988,085
Finance income		49,900	16,184
Finance costs		<u>(88,250)</u>	<u>(61,298)</u>
Finance costs – net	4(a)	(38,350)	(45,114)
Share of profit of an associate		<u>13,789</u>	<u>5,426</u>
Profit before taxation	4	1,399,152	948,397
Income tax	5	<u>(209,602)</u>	<u>(160,104)</u>
Profit for the year		1,189,550	788,293
Other comprehensive income for the year, net of nil tax			
Item that is or may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency		<u>(685,655)</u>	<u>212,625</u>
Other comprehensive income for the year		(685,655)	212,625
Total comprehensive income for the year		503,895	1,000,918

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Profit attributable to:			
Equity shareholders of the Company		1,122,837	785,533
Non-controlling interests		<u>66,713</u>	<u>2,760</u>
Profit for the year		<u>1,189,550</u>	<u>788,293</u>
Total comprehensive income attributable to:			
Equity shareholders of the Company		463,488	990,390
Non-controlling interests		<u>40,407</u>	<u>10,528</u>
Total comprehensive income for the year		<u>503,895</u>	<u>1,000,918</u>
Earnings per share			
– Basic	<i>6(a)</i>	<u>HK\$0.3761</u>	<u>HK\$0.2599</u>
– Diluted	<i>6(b)</i>	<u>HK\$0.3761</u>	<u>HK\$0.2591</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2022

(Expressed in Hong Kong dollars)

		31 December 2022	31 December 2021
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		4,214,219	4,051,004
Right-of-use assets		302,627	331,387
Intangible assets		1,039,133	907,196
Interests in an associate		408,306	441,694
Deferred tax assets		27,799	30,930
Pledged bank deposits and fixed deposits		89,976	62,589
		<u>6,082,060</u>	<u>5,824,800</u>
Current assets			
Inventories		810,656	827,504
Trade and bills receivables	7	2,112,680	2,023,941
Prepayments, deposits and other receivables		202,756	299,811
Pledged bank deposits and time deposits		90,813	70,928
Cash and cash equivalents		1,667,547	1,661,736
		<u>4,884,452</u>	<u>4,883,920</u>
Current liabilities			
Borrowings		1,646,082	1,414,438
Trade and bills payables	8	361,063	401,685
Contract liabilities		81,727	94,333
Lease liabilities		1,801	2,809
Accruals and other payables		530,652	423,788
Income tax payable		56,561	57,302
		<u>2,677,886</u>	<u>2,394,355</u>
Net current assets		<u>2,206,566</u>	<u>2,489,565</u>
Total assets less current liabilities		<u>8,288,626</u>	<u>8,314,365</u>

	31 December	31 December
	2022	2021
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities		
Borrowings	1,561,566	1,688,757
Lease liabilities	–	1,801
Deferred tax liabilities	20,846	21,409
Deferred revenue	160,390	109,690
	<u>1,742,802</u>	<u>1,821,657</u>
NET ASSETS	<u>6,545,824</u>	<u>6,492,708</u>
CAPITAL AND RESERVES		
	9	
Share capital	66,285	66,741
Reserves	6,147,315	6,152,122
	<u>6,213,600</u>	<u>6,218,863</u>
Total equity attributable to equity shareholders of the Company	6,213,600	6,218,863
Non-controlling interests	<u>332,224</u>	<u>273,845</u>
TOTAL EQUITY	<u>6,545,824</u>	<u>6,492,708</u>

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 (the “Listing Rules”). The consolidated financial statements for the year ended 31 December 2022 comprise the Company and its subsidiaries.

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 Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements 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*
- Amendments to HKFRS 3, *Business combinations: Reference to the conceptual framework*
- Annual Improvements to HKFRSs 2018-2020 Cycle

None of these amendments 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.

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 2022 and 2021 is set out below.

	2022			
	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	6,254,563	171,885	–	6,426,448
Over time	7,343	234	–	7,577
Revenue from external customers	6,261,906	172,119	–	6,434,025
Inter-segment revenue	3,476	178,719	–	182,195
Reportable segment revenue	6,265,382	350,838	–	6,616,220
Operating profit or loss/segment results	1,436,181	14,222	(26,690)	1,423,713
Finance income	48,848	236	816	49,900
Finance costs	(59,907)	–	(28,343)	(88,250)
Share of profit of an associate	13,789	–	–	13,789
Profit/(loss) before taxation	1,438,911	14,458	(54,217)	1,399,152
Income tax	(207,138)	(2,464)	–	(209,602)
Reportable segment profit/(loss) for the year	1,231,773	11,994	(54,217)	1,189,550
Depreciation and amortisation for the year	352,835	14,865	2,942	370,642
Provision for impairment of receivables	4,468	398	–	4,866
Impairment and write-off of internally generated research and development costs	3,933	–	–	3,933
Total assets/reportable segment assets (including interests in an associate)	10,355,222	441,541	169,749	10,966,512
Additions to non-current assets	1,130,326	55,449	20	1,185,795
Total liabilities/reportable segment liabilities	3,339,426	54,994	1,026,268	4,420,688

	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>
Disaggregated by timing of revenue recognition				
Point in time	5,174,515	176,950	–	5,351,465
Over time	5,071	227	–	5,298
Revenue from external customers	5,179,586	177,177	–	5,356,763
Inter-segment revenue	29,239	179,442	–	208,681
Reportable segment revenue	5,208,825	356,619	–	5,565,444
Operating profit or loss/segment results				
Finance income	15,661	66	457	16,184
Finance costs	(43,934)	–	(17,364)	(61,298)
Share of profit of an associate	5,426	–	–	5,426
Profit/(loss) before taxation	1,038,359	14,860	(104,822)	948,397
Income tax	(154,853)	(5,251)	–	(160,104)
Reportable segment profit/(loss) for the year	883,506	9,609	(104,822)	788,293
Depreciation and amortisation for the year	365,842	21,026	2,946	389,814
Provision for impairment of receivables	1,444	47	–	1,491
Total assets/reportable segment assets (including interests in an associate)	10,209,569	414,280	84,871	10,708,720
Additions to non-current assets	1,084,087	44,032	–	1,128,119
Total liabilities/reportable segment liabilities	3,117,516	32,646	1,065,850	4,216,012

3. Revenue

The Group derives revenue principally from the sale of a wide range of pharmaceutical products, which includes finished medicines of mainly intravenous infusion solution and ampoule injection 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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregation by major products or service lines		
– Sales of pharmaceutical products	6,206,967	5,166,689
– Sales of medical materials	167,144	174,403
– Services income	29,286	5,071
– Sales of raw materials and by-products	30,394	10,373
	<u>6,433,791</u>	<u>5,356,536</u>
Revenue from other source		
– Rental income	234	227
	<u>6,434,025</u>	<u>5,356,763</u>
Disaggregated by geographical location of customers		
– The PRC (place of domicile)	5,542,246	4,875,960
– Other countries	891,779	480,803
	<u>6,434,025</u>	<u>5,356,763</u>

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 2022 of HK\$234,000 (2021: HK\$227,000). 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 2022, 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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Finance income:		
– Interest income on bank deposits	(29,199)	(24,707)
– Net foreign exchange (gain)/loss	(20,701)	8,523
	<u>(49,900)</u>	<u>(16,184)</u>
Finance income	(49,900)	(16,184)
Finance costs:		
– Interest expense of borrowings	90,784	65,363
– Interest on lease liabilities	121	267
	<u>90,905</u>	<u>65,630</u>
<i>Less: Interest expense capitalised into qualifying assets*</i>	<u>(2,655)</u>	<u>(4,332)</u>
	<u>88,250</u>	<u>61,298</u>
Finance costs	88,250	61,298
Finance costs – net	38,350	45,114

* During the year ended 31 December 2022, the borrowing costs have been capitalised at a rate of 3.29% per annum (2021: 4.20%).

(b) Staff costs

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Contributions to defined contribution retirement plan	53,315	48,616
Equity-settled share-based payment expenses	–	67,050
Salaries, wages and other benefits	615,092	548,263
	<u>668,407</u>	<u>663,929</u>

(c) *Other items*

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Research and development costs	473,060	461,148
<i>Less: Costs capitalised into intangible assets</i>	<u>(213,956)</u>	<u>(213,156)</u>
	<u>259,104</u>	<u>247,992</u>
Amortisation [#]		
– intangible assets	26,038	15,275
<i>Less: Amount capitalised as development costs</i>	<u>(413)</u>	<u>(974)</u>
	<u>25,625</u>	<u>14,301</u>
Depreciation charges [#]		
– owned property, plant and equipment	334,209	363,079
– right-of-use assets	10,808	11,460
Provision for/(reversal of) impairment losses		
– trade and bills receivables	4,905	1,366
– other receivables	(39)	125
Auditors' remuneration – audit services	3,245	2,870
Cost of inventories [#]	2,872,721	2,180,338
Other expenses		
– transportation expenses	392,709	443,738
– utility expenses	461,959	308,558
– advertising expenses	262,014	283,463
– marketing and promotion service expenses	864,098	825,254
– travelling, meeting and entertainment expenses	68,112	63,010
– surcharges and other tax expenses	71,984	71,939

[#] Cost of inventories includes HK\$619,176,000 (2021: HK\$570,892,000) 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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Current tax – the PRC Corporate Income Tax (“CIT”)	213,172	167,983
Deferred tax – origination and reversal of temporary differences	<u>(3,570)</u>	<u>(7,879)</u>
	<u><u>209,602</u></u>	<u><u>160,104</u></u>

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 2022 and 2021 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”), Hebei Guangxiang Pharmaceutical Co., Ltd. (“Hebei Guangxiang”), Cangzhou Lingang Youyi Chemical Co., Ltd. (“Youyi Chemical”) and Hebei Guolong Pharmaceutical Co., Ltd. have been certified as High and New Technology Enterprises (“HNTE”) in 2021, 2020, 2020, 2022 and 2020, 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. The additional deduction of research and development expenditures have been increased from 75% to 100%, effective since 2021, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in March 2021.

According to the PRC income tax law and its relevant regulations issued in 2022, entities that qualified as HNTE are entitled to an additional 100% of qualified equipment newly purchased from 1 October 2022 to 31 December 2022, which is allowed to be deducted from taxable income.

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:*

	2022	2021
	HK\$'000	HK\$'000
Profit before taxation	1,399,152	948,397
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	337,352	246,327
Effect of the PRC preferential tax rate	(126,714)	(101,857)
Effect of non-deductible expenses	12,077	20,351
Additional deduction of research and development expenditures	(36,462)	(28,351)
Withholding tax on profit distributions	36,076	20,031
Additional deduction of qualified equipment procurement	(9,796)	–
Others	(2,931)	3,603
Actual tax expense	209,602	160,104

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\$1,122,837,000 (2021: HK\$785,533,000) and the weighted average of 2,985,389,000 ordinary shares (2021: 3,022,675,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2022	2021
	'000	'000
Issued ordinary shares at 1 January	2,996,689	3,043,727
Effect of purchase and cancellation of own shares	(11,300)	(21,052)
Weighted average number of ordinary shares at 31 December	2,985,389	3,022,675

(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\$1,122,837,000 (2021: HK\$785,533,000) and the weighted average of 2,985,389,000 ordinary shares (2021: 3,031,547,000 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)

	2022 '000	2021 '000
Weighted average number of ordinary shares at 31 December (basic)	2,985,389	3,022,675
Effect of deemed issue of shares under the Company's share option scheme	—	8,872
	<u>2,985,389</u>	<u>3,031,547</u>
Weighted average number of ordinary shares at 31 December (diluted)	<u>2,985,389</u>	<u>3,031,547</u>

The effect of outstanding share options issued by the Company is anti-dilutive, therefore is not included in the calculation of diluted earnings per share of the Company.

7. **Trade and bills receivables**

	2022 HK\$'000	2021 HK\$'000
Trade receivables	1,935,070	1,954,300
Bills receivable	191,746	79,910
	<u>2,126,816</u>	<u>2,034,210</u>
Less: Loss allowance	(14,136)	(10,269)
	<u>2,112,680</u>	<u>2,023,941</u>

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 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 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. Bills receivable were therefore derecognised.

As at 31 December 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 HK\$516 million (31 December 2021: HK\$623 million).

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:

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 3 months	1,267,724	1,278,663
4 to 6 months	529,845	476,113
7 to 12 months	321,129	269,828
1 to 2 years	5,483	6,433
More than 2 years	2,635	3,173
	<u>2,126,816</u>	<u>2,034,210</u>

8. Trade and bills payable

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Within 3 months	311,032	377,575
4 to 6 months	41,673	15,693
7 to 12 months	5,196	4,272
1 to 3 years	2,281	3,194
More than 3 years	881	951
	<u>361,063</u>	<u>401,685</u>

9. Dividends and share capital

(a) Dividends

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interim dividend declared and paid of HK6.0 cents per ordinary share (2021: HK5.0 cents per ordinary share)	179,043	151,305
Final dividend proposed after the end of the reporting period of HK8.0 cents per ordinary share (2021: HK7.0 cents per ordinary share)	<u>237,815</u>	<u>209,073</u>
	<u><u>416,858</u></u>	<u><u>360,378</u></u>

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 the previous financial year, approved and paid during the year

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK7.0 cents per share (2021: HK5.0 cents per share)	<u>209,073</u>	<u>151,305</u>

(b) Share capital

(i) Issued share capital

	2022		2021	
	No. of shares (<i>'000</i>)	<i>HK\$'000</i>	No. of shares (<i>'000</i>)	<i>HK\$'000</i>
Ordinary shares of HK\$0.02 each, issued and fully paid:				
At 1 January	2,996,689	66,741	3,043,727	67,682
Purchase and cancellation of own shares	<u>(22,806)</u>	<u>(456)</u>	<u>(47,038)</u>	<u>(941)</u>
	<u><u>2,973,883</u></u>	<u><u>66,285</u></u>	<u><u>2,996,689</u></u>	<u><u>66,741</u></u>

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 year ended 31 December 2022, 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 “PROSPECTS FOR DEVELOPMENT”.

FINANCIAL PERFORMANCE REVIEW

Revenue

The Group’s intravenous infusion solution 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 solution 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”), Hebei Guangxiang Pharmaceutical Co., Ltd. (“Hebei Guangxiang”) and Cangzhou Lingang Youyi Chemical Co., Ltd. (“Youyi Chemical”), all being 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 and are denominated in Renminbi (“RMB”), which depreciated by approximately 3.9% when translated into Hong Kong dollars (“HK\$”) for the year ended 31 December 2022 as compared with last year. Nevertheless, as a result of an overall increase in sales volume as compared with last year, revenue of the Group increased to HK\$6,434,025,000 for the year ended 31 December 2022 (2021: HK\$5,356,763,000), representing an increase of 20.1% on a year-to-year basis. Among which, revenue from intravenous infusion solution accounted for HK\$3,510,342,000 (2021: HK\$3,304,365,000), representing an increase of 6.2% on a year-to-year basis. Among which, revenue from Non-PVC Soft Bag and Upright Soft Bag infusion solution were HK\$1,788,791,000 and HK\$647,621,000 respectively, totalling HK\$2,436,412,000, representing 69.4% of the total revenue from intravenous infusion solution and an increase of 5.4% as compared with last year; revenue from PP Plastic Bottle infusion solution was HK\$839,750,000, representing 23.9% of the total revenue from intravenous infusion solution and an increase of 9.9% as compared with last year; revenue from Glass Bottle infusion solution was HK\$234,180,000, representing 6.7% of the total revenue from intravenous infusion solution and an increase of 2.7% as compared with last year.

On the other hand, the Group has put a lot of effort in product diversification. Revenue from bulk pharmaceuticals accounted for HK\$1,358,949,000 (2021: HK\$533,860,000), representing a significant growth of 154.6% as compared with 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 pharmaceutical products. Revenue from ampoule injections accounted for HK\$978,707,000 (2021: HK\$1,093,615,000), representing a decrease of 10.5% as compared with last year as some ampoule products have changed to a more effective sales channel in terms of sales volume.

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 bulk pharmaceuticals, ampoule injections, oral preparations and new medical material products to drive revenue growth.

Revenue from medical materials products contributed HK\$172,119,000 (2021: HK\$177,177,000) to the Group, representing a slight decrease of 2.9% as compared with last year.

Cost of Sales

The Group has been adopting various cost control measures such as production process optimization, equipment modification and energy conservation. As there is increase in sales volume as compared with last year, the Group's cost of sales increased by 31.1% to HK\$2,866,439,000 for the year ended 31 December 2022 as compared to last year of HK\$2,186,517,000. The cost of direct materials, direct labour and other costs represented approximately 60.5%, 12.7% and 26.8% of the total cost of sales respectively for the year ended 31 December 2022 while their comparative percentages for 2021 were 57.4%, 14.4% and 28.2% respectively.

Gross Profit Margin

For the year ended 31 December 2022, the Group recorded a total gross profit of HK\$3,567,586,000 (2021: HK\$3,170,246,000). Overall gross profit margin decreased by 3.8 percentage point to 55.4% from that of last year 59.2%. For the year ended 31 December 2022, there was an increased proportion of revenue from bulk pharmaceuticals which had a lower gross profit margin as compared to finished medicines, and there has been a change of sales channel for some ampoule products during the year.

Other Net Income

For the year ended 31 December 2022, the Group's other net income decreased to HK\$65,176,000 (2021: HK\$84,291,000) which mainly represented government grants.

Selling and Distribution Costs

For the year ended 31 December 2022, selling and distribution costs amounted to approximately HK\$1,660,247,000 (2021: HK\$1,707,028,000), which was mainly consisted of advertising, marketing and promotion expenses of HK\$1,121,283,000 (2021: HK\$1,102,221,000), transportation cost of approximately HK\$364,377,000 (2021: HK\$436,043,000) as well as salary expenses for sales and marketing staff of approximately HK\$84,699,000 (2021: HK\$71,614,000).

Selling and distribution costs slightly decreased by 2.7% for the year ended 31 December 2022 as compared with last year. Despite of an increase in sales volume as compared with last year, the Group reduced its selling and distribution costs mainly because of (i) an increased proportion of revenue from bulk pharmaceuticals which had a lower level of selling costs as compared to finished medicines, (ii) a reduced transportation cost mainly due to lower freight rates and (iii) a change of sales channel for some ampoule products.

General and Administrative Expenses

For the year ended 31 December 2022, general and administrative expenses was approximately HK\$284,832,000 (2021: HK\$309,941,000) which mainly comprised salaries expenses for administrative staff of approximately HK\$114,052,000 (2021: HK\$155,119,000 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\$95,284,000 (2021: HK\$93,344,000).

While the Group had an overall expansion in business, there was a decrease of 8.1% in general and administrative expenses as compared to last year. There was no expense arising from grant of share options to administrative management staff for the year ended 31 December 2022 (2021: HK\$28,161,000), and the Group has been adopting cost control measures in general and administrative expenses.

Research and Development Costs

For the year ended 31 December 2022, research and development costs amounted to HK\$259,104,000 (2021: HK\$247,992,000), which comprised salaries expenses for R&D staff of approximately HK\$104,450,000 (2021: HK\$122,858,000), depreciation and amortisation expenses of approximately HK\$32,753,000 (2021: HK\$39,224,000) as well as other costs (such as raw materials and consumables) directly expensed of approximately HK\$121,901,000 (2021: HK\$85,910,000).

Research and development cost increased by 4.5% for the year ended 31 December 2022 as compared with last year. Undergoing the process of enterprise transformation and product diversification, the Group expanded and expedited the research and development of new products in drug preparations, bulk pharmaceuticals as well as medical materials.

Profit from Operations

For the year ended 31 December 2022, the Group's profit from operations amounted to HK\$1,423,713,000, representing an increase of 44.1% as compared to HK\$988,085,000 in year 2021. The operating profit margin (defined as profit from operations divided by total revenue) increased to 22.1% as compared to 18.4% in year 2021.

Net Finance Costs

The Group's net finance costs, which represented mainly interest expenses of bank borrowings less interest income on bank deposits and foreign exchange gain, decreased by 15% to HK\$38,350,000 for the year ended 31 December 2022 (2021: HK\$45,114,000) mainly due to a foreign exchange gain this year as compared to a foreign exchange loss in last year.

Income Tax Expense

The Group believes that Shijiazhuang No. 4 Pharma, Jiangsu Best, Hebei Guangxiang, Hebei Guolong and Youyi Chemical have been certified as High and New Technology Enterprises and thus subject to a reduced corporate income tax of 15% in the PRC for year 2022. For the year ended 31 December 2022, the income tax expense of the Group increased by 30.9% to HK\$209,602,000 (2021: HK\$160,104,000) mainly due to a higher profit before taxation of the Group.

Profit Attributable to Equity Shareholders

For the year ended 31 December 2022, profit attributable to equity shareholders of the Company increased by 42.9% to HK\$1,122,837,000 (2021: HK\$785,533,000), with net profit margin (defined as profit attributable to equity shareholders of the Company divided by total revenue) increased from 14.7% last year to 17.5% this 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 2022, the Group's cash and cash equivalents amounted to HK\$1,667,547,000 (31 December 2021: HK\$1,661,736,000), mostly were denominated in RMB.

As at 31 December 2022, the Group's bank borrowings amounted to HK\$3,207,648,000 (2021: HK\$3,103,195,000), comprising HK\$1,875,804,000 (2021: HK\$1,700,772,000) of borrowings denominated in RMB and HK\$1,331,844,000 (2021: HK\$1,402,423,000) in Hong Kong dollars. As at 31 December 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) slightly increased from 18.9% as at 31 December 2021 to 19.9% as at 31 December 2022. Current ratio (defined as current assets divided by current liabilities) decreased from 2.04 as at 31 December 2021 to 1.82 as at 31 December 2022 mainly due to a larger amount of bank borrowing which is repayable within one year.

As at 31 December 2022, the Group's total capital commitments outstanding but not provided for was HK\$555,075,000 (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 31 December 2022, the Group had approximately 5,000 employees (2021: 4,800 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 Company's share option schemes and shares granted under the Company's 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 Company's share option schemes and shares may be granted under the Company's Restricted Share Award Scheme to 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. Remuneration packages of executive Directors comprise base salary, performance bonus and fringe benefits including the provident fund, medical insurance and other miscellaneous benefits. The emolument payable to Directors depends on their respective contractual terms under the service contract with the Company, and as recommended by the Remuneration Committee.

The total remuneration cost incurred by the Group for year ended 31 December 2022 was approximately HK\$668,407,000 (2021: HK\$663,929,000 including a one-off non-cash expense of HK\$67,050,000 arising from grant of share options to management staff of the Group).

CHARGE ON ASSETS

As at 31 December 2022, the Group's right-of-use assets of HK\$49,011,000 (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 dates below, the exchange rates of converting HK\$ into RMB (as calculated in HK\$) were:

1 January 2021	0.84164
31 December 2021	0.81760
31 December 2022	0.89327

MATERIAL ACQUISITIONS AND DISPOSALS

On 9 March 2022, the Group completed the acquisition of 100% interest in Youyi Chemical with a cash consideration of RMB55,000,000 (equivalent to HK\$68,196,000). Please refer to the Company's announcement dated 9 March 2022 for details of the acquisition. 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. The Company allocated the purchase price to identifiable assets acquired and liabilities assumed based on their fair values. During the year ended 31 December 2022, Youyi Chemical contributed revenue of HK\$386,939,000 and profit of HK\$134,505,000 to the Group's results.

Save as disclosed above, there was no material acquisition or disposal of subsidiary or associate for the year ended 31 December 2022.

CONTINGENT LIABILITIES

As at 31 December 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 24,006,000 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 year ended 31 December 2022.

During the year ended 31 December 2022, the Company acquired an aggregate of 24,006,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) at an aggregate consideration of HK\$86,158,000 which details are set out below. Among all of the above shares, 22,806,000 shares have been cancelled as at 31 December 2022, and the remaining 1,200,000 shares was cancelled on 5 January 2023.

Date of the purchases	Total number of the ordinary shares purchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Aggregate consideration (HK\$)
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
31 August 2022	2,700,000	3.80	3.71	10,186,000
20 September 2022	1,630,000	3.40	3.31	5,497,000
21 September 2022	570,000	3.36	3.33	1,918,000
23 September 2022	770,000	3.35	3.29	2,571,000
28 September 2022	220,000	3.21	3.19	706,000
11 October 2022	980,000	3.32	3.25	3,239,000
20 October 2022	1,416,000	3.66	3.55	5,131,000
24 October 2022	1,662,000	3.43	3.31	5,685,000
28 October 2022	1,260,000	3.47	3.35	4,312,000
31 October 2022	1,660,000	3.32	3.25	5,466,000
23 December 2022	1,200,000	4.38	4.32	5,254,000
	<u>24,006,000</u>			<u>86,158,000</u>

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 28 March 2023, and at all times during the year ended 31 December 2022.

MODEL CODE FOR SECURITIES TRANSACTIONS

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 by the Company, all Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2022.

CORPORATE GOVERNANCE

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 Board reviews its corporate governance practices from time to time in order to meet the stakeholders’ expectations and comply with the latest regulatory requirements, and to fulfill its commitment to a high standard of corporate governance.

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 year ended 31 December 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.

On 28 December 2022, a Nomination Committee meeting and a Board meeting were held in resolving the appointment of Mr. Jiang Guangce as a new independent non-executive Director of the Company with effect from 1 January 2023. Accordingly, the Company has complied with Code Provision B.2.4(b) of the CG Code regarding the requirements on independent non-executive Director effective for the financial year commencing on or after 1 January 2023. Mr. Jiang Guangce will be subject to re-election by the shareholders at the forthcoming general meeting.

As at 31 December 2022 and the latest practicable date, the Company has a single gender board. The Board is aware of the requirement under Rule 13.92 of the Listing Rules for issuers with a single gender board to appoint a director of a different gender no later than 31 December 2024. The Company has revisited its board diversity policy during the year ended 31 December 2022 to include such requirement as one of the measurable objectives, and will take appropriate actions to address the single gender Board issue. The Company will make relevant disclosures in amongst others, its corporate governance report, as and when appropriate pursuant to the Listing Rules. Such disclosures may include but are not limited to the measures to be taken by the Board to achieve greater gender diversity, proposed targets and timelines.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

As a pharmaceutical enterprise, the Group understands the importance of environmental sustainability and green manufacturing and is committed to generating a positive impact on the society and the environment. The investors and stakeholders are placing more emphasis on the performance of the environmental, social and governance (the “ESG”) aspect. In addition to achieving our business objectives, we recognize our responsibility to operate in a more responsible and sustainable manner by integrating ESG considerations into our day-to-day operations.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group’s annual results for the year ended 31 December 2022 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 2022 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 has adopted a dividend policy in which the Board considers 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 aggregated amount of interim dividend and final dividend in each financial year divided by the Group's audited net profits attributable to the shareholders in 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 2022, an interim dividend of HK\$0.06 per share was declared on 29 August 2022 and paid on 30 September 2022 (2021: HK\$0.05 per share). The Board recommended a final dividend of HK\$0.08 per share (2021: HK\$0.07 per share) which, together with the interim dividend, will result in total dividends of HK\$0.14 per share for the year ended 31 December 2022 (2021: HK\$0.12 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 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 Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Wednesday, 24 May 2023 which is the Record Date for the proposed final dividend. The proposed final dividend is expected to be paid on or about Wednesday, 7 June 2023.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held at 2:00 p.m. on 19 May 2023 at Rooms 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. A notice of annual general meeting will be published and despatched in accordance with the requirement of the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 16 May 2023 to Friday, 19 May 2023, 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 Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Monday, 15 May 2023.

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 2022 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 to the Group.

On behalf of the Board

Qu Jiguang

Chairman

Hong Kong, 28 March 2023

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, Mr. Chow Kwok Wai and Mr. Jiang Guangce as independent non-executive Directors.