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 2019

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of SSY Group Limited (the "Company"), I hereby present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019.

I. RESULT AND DIVIDEND DISTRIBUTION

During 2019, there were no significant changes in the market landscape and the product price of the intravenous infusion solutions industry compared to the corresponding period of last year. The Group fully utilised its own advantages in scale, varieties, qualities, innovation and brand name to achieve improvements in terms of quality and quantity in its operation results, and continuously kept its development in the leading position within the industry. The dynamics of product research & development and bulk pharmaceuticals projects emerged, which facilitated further consolidation and reinforcement of the Group's market influence and competitiveness.

During the year, the Group achieved a revenue of HK$4,636 million (or approximately Renminbi ("RMB") 4,079 million), representing an increase of 10.9% (or approximately 15.3% in RMB). The net profit was HK$1,136 million (or approximately RMB1,000 million), representing an increase of 24.6% (or approximately 29.6% in RMB) compared with last year.

The Board resolved to pay a final dividend of HK$0.06 per share, which represented an increase of 20% compared to last year, on 9 June 2020 to the shareholders named in the register of members of the Company on 27 May 2020. The total dividend amount to be distributed for the year is HK$334 million, representing an increase of 23% compared with last year.

II. BUSINESS REVIEW

Revenue

For the year ended 31 December 2019, revenue of the Group amounted to approximately HK$4,635,675,000, representing an increase of 10.9% as compared to HK$4,180,788,000 in last year. A breakdown of revenue of the Group for the year ended 31 December 2019 is set out as follows:

	2019		2018		
	Sales	**Percentage of sales**	Sales	Percentage of sales	Increase/ (Decrease)
	HK$'000	***%***	*HK$'000*	*%*	*%*
Intravenous infusion solution and others	**4,474,109**	**96.5**	4,026,403	96.3	11.1
(Including: Non-PVC soft bag & upright soft bag infusion solution	**2,573,437**	**55.5**	2,412,761	57.7	6.7
PP plastic bottle infusion solution	**861,261**	**18.6**	814,391	19.5	5.8
Glass bottle infusion solution	**442,121**	**9.6**	468,655	11.2	(5.7)
Ampoule injection	**391,600**	**8.4**	127,270	3.0	207.7
Others)	**205,690**	**4.4**	203,326	4.9	1.2
Medical materials	**161,566**	**3.5**	154,385	3.7	4.7
Total	**4,635,675**	**100**	4,180,788	100	10.9

(1) Sales of Products

During 2019, we focused on the reinforcement of penetration rate in major provincial markets, so as to maintain and consolidate our competitive advantage. We completed the market development for over 170 new hospitals, focused on adjustments to product mix, improved the sales growth of therapeutic infusion solutions, and ensured that both production and sales of the Company's products were vigorous. We continued to be the company with the fastest growth of production and sales volume in the intravenous infusion solutions industry. During the year, the sales volume of the intravenous infusion solutions, being our major products, reached approximately 1,545 million bottles/bags, representing an increase of approximately 5.6% compared to the corresponding period of last year, of which the proportion of therapeutic infusion solutions increased to 22.3%, representing an increase of 2.6 percentage points compared to the corresponding period of last year.

Ampoule products had a fast growth. During the year, the sales of ampoule products amounted to HK$392 million, representing a growth of 208% compared to the corresponding period of last year.

In recent years, access to different markets by newly approved products has been gradually completed with sales promotion for new products being facilitated in different provinces. Of those, the market access work of Moxifloxacin Hydrochloride and Sodium Chloride Injection has been completed in 22 provinces and has resulted in sales in 21 provinces, reaching the milestone of over HK$100 million sales in 2019 as its first full year in sales, achieving a sales of approximately HK$165 million. With the progress of market access and development work in hospitals, it will continue to maintain the momentum in fast development.

Arbidol capsule was included in the National Medical Insurance Catalogue 2019, the Diagnosis and Treatment Program for Influenza (2019 version) by the National Health Commission and the Diagnosis and Treatment Program for Novel Coronavirus Infected Pneumonia (Trial Version) of China. The product has been admitted to either Catalogues of Products for Epidemic Prevention and Control or Green Channels for Preventive and Control Drugs in 27 provinces and municipalities. As a broad-spectrum antiviral drug, Abidol has played a very good role in this fight against the epidemic, and has been widely recognised by medical institutions. Such factors have laid a good foundation for the Group to expand the market of the product and will provide a new driving force for the growth of the Company's result.

The export sales to foreign countries kept growing steadily with a growth of 19% in sales volume during the year as compared to the corresponding period of last year. We completed the export registration procedures and obtained registration certificates for 34 product specifications, including Metronidazole and Sodium Chloride Injection, Ciprofloxacin Lactate Injection, 18AA Amino Acid Injection and Sodium Lactated Ringer's Injection, in 9 countries including Philippines, Bolivia, Uzbekistan and Jamaica, and increased 5 new countries for export.

In respect of medical materials, Jiangsu Best brought its own technological advantages into play in responding to the policy for examination and approval associated with pharmaceutical products: enhancing the communication with the Research & Development department of other major national pharmaceutical enterprise and jointly developing medical materials products in accordance to customers' needs to seize opportunities in market development. Consistency evaluation for injection was conducted in active concert with the enterprises of pharmaceutical formulation. A total of 16 types of injection were submitted for 12 customers to Centre for Drug Evaluation for related review.

(2) Research and Development of New Products

Our technological innovation capabilities have been further enhanced, gradually forming a set of comprehensive, scientific and articulate systems for technology innovation. In 2019, preparation works for reaccreditations of National Centre for Enterprise Technology, Model Enterprises for National Technology Innovation, National and Local Joint Laboratory and Workstation for Postdoctoral Scientific Research have been completed. Applications of China's Patent Award and Dominating Enterprise of National Intellectual Property have been submitted to National Intellectual Property Administration, which was important for the Company to remain at "the forefront of the national team" in terms of technology innovation competence and level.

The Company submitted the review of NP-01, a Type 1 new drug, to the China Center for Drug Evaluation of National Medical Products Administration, which marked the first ever submission of innovative drugs by the Company, demonstrating that the Company had advanced from "generic drug R&D" to "combination of generic and innovative drugs" new stage.

Achievements from new innovations have been emerging. During the year, the Company has obtained 13 approvals for production of generic drugs and 2 approvals for consistency evaluation. Among which, Tirofiban Hydrochloride and Sodium Chloride Injection, a cardiovascular drug clinically used to treat acute coronary syndrome, was viewed as a therapeutical drug of great potential in promoting for clinical use and thus a key product for the Company's performance development. Approval for peritoneal dialysis solution series, combining with the Company's existing hemodialysis product portfolio will bring the Company to the market of dialysis products which has a nice room for market growth. Hydroxyethyl starch 130 sodium chloride injection will win a place in the blood capacity and anaesthetic markets; Ambroxol Hydrochloride ampoule products in 3 specifications will further enrich the Company's product series in the respiratory field. Fluconazole tablet with 2 specifications (50mg & 150mg) passing consistency evaluation, of which the 150mg specification being the first one passing consistency evaluation in China, will bring better market potential into effect in its future national product tendering.

(3) Development of Projects

To satisfy the market demand, a production line for large volume and large specification of high-value-added infusion such as hemofiltration solution and peritoneal dialysis solution was recently built. With GMP certification obtained in May and designed capacity of 20 million bags per year, it is now in production and operation.

The main building as well as ancillary construction and structures of the Group's pharmaceutical R&D platform, pilot-testing and industrialized support project, have completed construction and is currently entering latter stages of equipment installation. They will be in service by April 2020.

The phase-one bulk pharmaceuticals project, which was invested and constructed in Bohai new district under Hebei Guangxiang Pharmaceutical Co., Ltd., has been completed. It passed the GMP certification in August 2019 and obtained the necessary approval for spot production of caffeine. Mass production began in October 2019. Participation in international market competition and efficiency enhancement has been regarded as the foothold of the project, while advanced technological ideas in bulk pharmaceutical production as well as artifices and new devices have been introduced and applied. Innovations and breakthroughs have been achieved in key areas such as quality risk control, ecological environmental protection and safety energy conservation. It has a national-wide leading level of automation, and continuously creates competitive advantages.

III. PROSPECTS FOR DEVELOPMENT

Looking ahead in 2020, the domestic and international economy will be more complex and dynamic. The outbreak of novel coronavirus epidemic caused disturbances to the whole society and production chains. Pharmaceutical markets, raw materials supply and human resources market all require rebuilding and time order restoration, bringing numerous challenges to the production and operation of the Company. Policies such as Group Purchasing Organisation Programme and control over medical insurance expenditure in China have a long-lasting impact on the operation of pharmaceutical enterprises. Facing numerous uncertain factors, the Group will keep its composure, and do its best in maintaining the momentum in fast development of the Company.

1. We will maintain its major products in the leading position of intravenous infusion solution market. Despite the sales of intravenous infusion solution were affected by the epidemic in the first quarter of this year, we still strive for a sales volume of intravenous infusion solution products to reach approximately 1,600 million bottles/bags, representing a year-on-year increase of approximately 3.56%. We will continue to expand the sales proportion of therapeutic infusion solution products. We will strengthen market sales of the major therapeutic infusion products such as Moxifloxacin. On the foundation of Moxifloxacin's sales record of over HK$100 million made in 2019, we will make efforts to reach a new level of sales target in multiples.

2. We will continue to enhance the utilisation rate of ampoule production lines, enrich products' variety, improve the sales growth of dominant ampoule products such as Hydrochloride Betahistine, Hydrochloride Ambroxol, Ropivacaine Hydrochloride and Doxofylline, and maintain a consistent sales growth in ampoule product series.

3. We will actively utilise production capacity of bulk pharmaceuticals. The phase-one bulk pharmaceuticals project under Hebei Guangxiang Pharmaceutical will reach maximum efficiency and result in the mass production of bulk pharmaceuticals including caffeine, theophylline, aminophylline, metronidazole and nifedipine. We will create sales channel domestically and internationally while establishing quality and cost advantages to foster new growth poles for the Group's development.

4. We will create a new growth pole of the solid preparation products like Arbidol capsules. We will seize the market opportunities in fighting against the epidemic and strengthen the market recognition and sales of Arbidol, so as to facilitate the breakthrough in the whole solid preparation products. The sales revenue of Arbidol is expected to reach the milestone of over 100 million this year.

5. Jiangsu Best will continue following up the progress of consistency evaluation for injections, increase the interaction between pharmaceutical enterprises in research and development, and start product market development of packaging according to customers' special requirements, with market expansion always driven by technology.

6. We will continue to carry out new product development and consistency evaluations. We will adhere to the new products development idea of "combination of generic and innovative drugs" with injection as the basis, reinforcing the Company's technological and product advantages in the intravenous infusion solutions industry of China. We will make comprehensive progress on the development of new products for therapeutic injections, and focus on various fields including treatment of chronic diseases, respiratory system, circulation systems, emergency anesthesia therapy, antipyretic and analgesic therapy, as well as the new anti-infective therapy.

Within this year, we will comprehensively complete the research works for consistency evaluation of the major types of intravenous infusion solutions, and ensure that the Company maintains its leading position in development within the intravenous infusion solutions industry.

We will gradually create a product series of high-end anti-infective intravenous infusion solutions focusing on Moxifloxacin Hydrochloride Sodium Chloride Injection, Levornidazole Sodium Chloride Injection (type 2.1 innovative drug in China awaiting approval) and Linezolid and Glucose Injection, and create a product series in respiratory field including Bromhexine Hydrochloride Injection, Ambroxol Hydrochloride Injection and Doxofylline Injection. We will create a product series in anaesthesia field including Ropivaeaine Hydrochloride Injection and Dexmedetomidine Hydrochloride for injection. Hemodialysis and peritoneal product series will form the Company's product portfolio in the field of kidney disease and dialysis. Through developing new microspheres, Liposomal and Emulsion High-end Injection, Lyophilized Powder Injection, Dual-chamber Bag, Multi-chamber Bag and Aseptic Filling Injection, the Company gradually establishes its leading position in injections in terms of high-end drug delivery system and innovative packaging form.

Regarding innovative drugs, the phase I clinical trial of type 1 anti-tumor new drug NP-01 is expected to commence in the first half of year 2020. The type 1 new drug AND-9 used for the treatment of liver fibrosis is now under preclinical pharmacology and toxicology studies, and submission for phase I clinical trial registration application is expected during the year. Currently, 3 highly active target compounds selected from our self-developed series of compounds for treating pulmonary hypertension, are submitted to preclinical investigation in order. A preliminary animal experimentation of new type of anti-epileptic compound QO-83 indicates a good potential of drug-formation. Anti-tumor chemical drug Miriplatin, a type 2 innovative drug, has started the pharmacodynamics study and safety assessment work as scheduled, and is expected to apply for clinical trials within this year.

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019	2018
			(Note)
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**4,635,675**	4,180,788
Cost of sales		**(1,758,842)**	(1,574,415)
Gross profit		**2,876,833**	2,606,373
Other income		**157,886**	73,389
Selling and distribution costs		**(1,261,406)**	(1,230,047)
General and administrative expenses		**(381,657)**	(336,260)
Profit from operations		**1,391,656**	1,113,455
Finance income		**24,755**	16,657
Finance costs		**(55,268)**	(50,969)
Finance costs — net	*4(a)*	**(30,513)**	(34,312)
Profit before taxation	*4*	**1,361,143**	1,079,143
Income tax	*5*	**(223,838)**	(164,524)
Profit for the year		**1,137,305**	914,619
Other comprehensive income for the year, net of nil tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency		**(130,803)**	(240,679)
Other comprehensive income for the year		**(130,803)**	(240,679)
Total comprehensive income for the year		**1,006,502**	673,940

	Note	2019	2018
			(Note)
	Note	***HK$'000***	*HK$'000*
Profit attributable to:			
Equity shareholders of the Company		**1,136,101**	911,774
Non-controlling interests		**1,204**	2,845
Profit for the year		**1,137,305**	914,619
Total comprehensive income attributable to:			
Equity shareholders of the Company		**1,009,287**	679,602
Non-controlling interests		**(2,785)**	(5,662)
Total comprehensive income for the year		**1,006,502**	673,940
Earnings per share			
— Basic	*6(a)*	**HK$0.3755**	HK$0.3044
— Diluted	*6(b)*	**HK$0.3725**	HK$0.2999

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	**31 December 2019**	31 December 2018 *(Note)*
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment		**3,414,398**	2,879,018
Land use rights		**—**	272,004
Right-of-use assets	*1*	**263,652**	—
Intangible assets		**545,509**	499,056
Deferred tax assets		**13,022**	9,139
Fixed deposits		**122,798**	114,129
		4,359,379	3,773,346
Current assets			
Inventories		**506,923**	422,504
Trade and bills receivables	*7*	**1,803,279**	1,271,424
Prepayments, deposits and other receivables		**230,070**	216,081
Pledged bank deposits and time deposits		**7,262**	252,671
Cash and cash equivalents		**817,429**	902,062
		3,364,963	3,064,742
Assets held for sale		**—**	42,657
		3,364,963	3,107,399
Current liabilities			
Borrowings		**816,915**	448,383
Trade payables	*8*	**171,798**	148,505
Contract liabilities		**47,411**	32,659
Lease liabilities	*1*	**2,394**	—
Accruals and other payables		**475,283**	720,031
Income tax payable		**63,207**	49,375
		1,577,008	1,398,953
Net current assets		**1,787,955**	1,708,446
Total assets less current liabilities		**6,147,334**	5,481,792

	Note	31 December 2019 HK$'000	31 December 2018 (Note) HK$'000
Non-current liabilities			
Borrowings		**878,942**	1,046,119
Lease liabilities	*1*	**904**	—
Deferred tax liabilities		**24,203**	17,974
Deferred revenue		**56,137**	39,453
		960,186	1,103,546
NET ASSETS		**5,187,148**	4,378,246
CAPITAL AND RESERVES	*9*		
Share capital		**67,454**	67,088
Reserves		**4,918,968**	4,171,344
Total equity attributable to equity shareholders of the Company		**4,986,422**	4,238,432
Non-controlling interests		**200,726**	139,814
TOTAL EQUITY		**5,187,148**	4,378,246

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1.

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 2019 comprise the Company and its subsidiaries.

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

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

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

Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the 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.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transaction involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach. Comparative information has not been restated and continues to be reported under HKAS 17.

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

a. *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

b. *Lessee accounting and transitional impact*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.76%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 *HK$'000*
Operating lease commitments at 31 December 2018	7,774
Less: commitments relating to leases exempt from capitalisation:	
— short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(709)
	7,065
Less: total future interest expenses	(406)
Present value of remaining lease payments, discounted using the incremental borrowing rates at 1 January 2019 and total lease liabilities recognised at 1 January 2019	6,659

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

As at 31 December 2018, the Group did not have any leases classified as finance leases. There is no impact on the opening balance of equity.

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 *HK$'000*	Capitalisation of operating lease contracts *HK$'000*	Carrying amount at 1 January 2019 *HK$'000*
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Land use rights	272,004	(272,004)	—
Right-of-use assets	—	278,663	278,663
Total non-current assets	3,773,346	6,659	3,780,005
Lease liabilities (current)	—	3,332	3,332
Current liabilities	1,398,953	3,332	1,402,285
Net current assets	1,708,446	(3,332)	1,705,114
Total assets less current liabilities	5,481,792	3,327	5,485,119
Lease liabilities (non-current)	—	3,327	3,327
Total non-current liabilities	1,103,546	3,327	1,106,873
Net assets	4,378,246	—	4,378,246

c. *Impact on the financial result and cash flows of the Group*

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. There is no significant difference on the reported profit from operations in the Group's consolidated statement of profit or loss and other comprehensive income as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a change in presentation of cash flows within the cash flow statement.

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16 (A)	**Add back: HKFRS 16 depreciation and interest expense (B)**	**Deduct: Estimated amounts related to operating leases as if under HKAS 17** ***(note 1)*** **(C)**	**Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C)**	Compared to amounts reported for 2018 under HKAS 17
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Financial result for year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	**1,391,656**	**3,336**	**(3,581)**	**1,391,411**	1,113,455
Finance costs — net	**(30,513)**	**238**	**—**	**(30,275)**	(34,312)
Profit before taxation	**1,361,143**	**3,574**	**(3,581)**	**1,361,136**	1,079,143
Profit for the year	**1,137,305**	**3,574**	**(3,581)**	**1,137,298**	914,619

	2019			2018
	Amounts reported under HKFRS 16 (A)	**Estimated amounts related to operating leases as if under HKAS 17 *(notes 1&2)* (B)**	**Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B)**	Compared to amounts reported for 2018 under HKAS 17
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*
Line items in the consolidated cash flow statement for year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	**905,236**	**(3,581)**	**901,655**	1,180,645
Net cash generated from operating activities	**645,957**	**(3,581)**	**642,376**	969,825
Capital element of lease rentals paid	**(3,343)**	**3,343**	**—**	—
Interest element of lease rentals paid	**(238)**	**238**	**—**	—
Net cash generated from financing activities	**14,529**	**3,581**	**18,110**	39,787

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

d. *Lessor accounting*

The Group leases out certain office premise as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

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 2019 and 2018 is set out below.

	2019			
	Intravenous infusion solution and others *HK$'000*	**Medical materials** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Disaggregated by timing of revenue recognition				
Point in time	**4,469,404**	**161,318**	**—**	**4,630,722**
Over time	**4,715**	**238**	**—**	**4,953**
Revenue from external customers	**4,474,119**	**161,556**	**—**	**4,635,675**
Inter-segment revenue	**21,564**	**169,939**	**—**	**191,503**
Reportable segment revenue	**4,495,683**	**331,495**	**—**	**4,827,178**
Operating profit or loss/segment results	**1,402,078**	**23,385**	**(33,807)**	**1,391,656**
Finance income	**24,610**	**81**	**64**	**24,755**
Finance costs	**(32,521)**	**(453)**	**(22,294)**	**(55,268)**
Profit/(loss) before taxation	**1,394,167**	**23,013**	**(56,037)**	**1,361,143**
Income tax	**(217,798)**	**(6,040)**	**—**	**(223,838)**
Reportable segment profit/(loss) for the year	**1,176,369**	**16,973**	**(56,037)**	**1,137,305**
Depreciation and amortisation for the year	**257,262**	**19,809**	**271**	**277,342**
Write-off of internally generated research and development costs	**8,943**	**—**	**—**	**8,943**
Provision for impairment of receivables	**2,692**	**36**	**—**	**2,728**
Total assets/reportable segment assets	**7,366,351**	**350,833**	**7,158**	**7,724,342**
Additions to non-current assets	**929,254**	**21,364**	**—**	**950,618**
Total liabilities/reportable segment liabilities	**1,989,746**	**24,004**	**523,444**	**2,537,194**

	2018 *(Note)*			
	Intravenous infusion solution and others	Medical materials	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Disaggregated by timing of revenue recognition				
Point in time	4,020,187	154,385	—	4,174,572
Over time	6,216	—	—	6,216
Revenue from external customers	4,026,403	154,385	—	4,180,788
Inter-segment revenue	25,587	164,452	—	190,039
Reportable segment revenue	4,051,990	318,837	—	4,370,827
Operating profit or loss/segment results	1,108,917	22,896	(18,358)	1,113,455
Finance income	16,436	219	2	16,657
Finance costs	(26,543)	(1,027)	(23,399)	(50,969)
Profit/(loss) before taxation	1,098,810	22,088	(41,755)	1,079,143
Income tax	(159,287)	(5,237)	—	(164,524)
Reportable segment profit/(loss) for the year	939,523	16,851	(41,755)	914,619
Depreciation and amortisation for the year	259,864	23,526	590	283,980
Impairment of goodwill	6,206	—	—	6,206
Impairment of intangible assets	19,342	—	—	19,342
Provision for impairment of receivables	1,401	56	—	1,457
Total assets/reportable segment assets	6,460,123	364,666	55,956	6,880,745
Additions to non-current assets	781,826	11,992	—	793,818
Total liabilities/reportable segment liabilities	1,645,444	59,772	797,283	2,502,499

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1.

3. Revenue

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

(i) Disaggregation of revenue

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

	2019	2018
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregation by major products or service lines		
— Sales of pharmaceutical products	**4,462,343**	4,017,162
— Sales of medical materials	**158,224**	151,169
— Services income	**4,709**	6,041
— Sales of raw materials and by-products	**10,155**	6,241
	4,635,431	4,180,613
Revenue from other source		
— Rental income	**244**	175
	4,635,675	4,180,788
Disaggregated by geographical location of customers		
— The PRC	**4,481,341**	4,046,465
— Other countries	**154,334**	134,323
	4,635,675	4,180,788

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 2019 of HK$244,000 (2018: HK$175,000). 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 2019, 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

	2019	2018
		(Note)
	HK$'000	*HK$'000*
Finance income:		
— Interest income on bank deposits	**(23,367)**	(13,412)
— Net foreign exchange gain	**(1,388)**	(3,245)
Finance income	**(24,755)**	(16,657)
Finance costs:		
— Interest expense of borrowings	**68,852**	53,154
— Interest on lease liabilities	**238**	—
	69,090	53,154
Less: Interest expense capitalised into qualifying assets*	**(13,822)**	(2,185)
Finance costs	**55,268**	50,969
Finance costs — net	**30,513**	34,312

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 1.

* During the year ended 31 December 2019, the borrowing costs have been capitalised at a rate of 4.90% per annum (2018: 4.11%).

(b) Staff costs

	2019	2018
	HK$'000	*HK$'000*
Contributions to defined contribution retirement plan	**41,702**	44,830
Salaries, wages and other benefits	**434,445**	385,225
	476,147	430,055

(c) ***Other items***

	2019	2018
	HK$'000	*HK$'000*
Research and development costs (other than amortisation costs)	**140,490**	78,071
Less: Costs capitalised into intangible assets	**(65,139)**	(31,271)
	75,351	46,800
Amortisation#		
— land use rights	**—**	6,879
— intangible assets	**15,814**	18,601
Less: Amount capitalised as development costs	**(994)**	(923)
	14,820	24,557
Depreciation charges#		
— owned property, plant and equipment	**251,956**	258,500
— right-of-use assets	**9,572**	—
Impairment losses		
— trade and bills receivables	**2,725**	1,585
— intangible assets	**—**	19,342
— goodwill	**—**	6,206
Write-off of internally generated research and development costs	**8,943**	—
Auditors' remuneration — audit services	**2,500**	2,300
Cost of inventories#	**1,721,736**	1,510,912
Total minimum lease payments for leases previously classified as operating leases under HKAS 17*	**—**	9,457
Other expenses		
— transportation expenses	**434,694**	518,651
— utility expenses	**130,348**	149,319
— advertising expenses	**203,785**	190,961
— marketing service expenses	**499,887**	394,311
— travelling, meeting and entertainment expenses	**62,646**	84,191
— surcharges and other tax expenses	**63,525**	71,934

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1.

Cost of inventories includes HK$444,883,000 (2018: HK$441,388,000) 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:

	2019	2018
	HK$'000	*HK$'000*
Current tax – the PRC Corporate Income Tax ("CIT")	**221,235**	172,280
Deferred tax – origination and reversal of temporary differences	**2,603**	(7,756)
	223,838	164,524

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 2019 and 2018 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 Guolong Pharmaceutical Co., Ltd. and Hebei Hanlin Biotechnology Co., Ltd. have been certified as High and New Technology Enterprises ("HNTE") in 2018, 2017, 2017 and 2018, 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 50% to 75%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018.

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:

	2019	2018
	HK$'000	*HK$'000*
Profit before taxation	**1,361,143**	1,079,143
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**347,727**	271,938
Effect of the PRC preferential tax rate	**(139,891)**	(109,743)
Effect of non-deductible expenses	**10,037**	6,506
Additional deduction of research and development expenditures	**(8,936)**	(6,030)
Withholding tax on profit distributions	**16,003**	1,878
Others	**(1,102)**	(25)
Actual tax expense	**223,838**	164,524

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$1,136,101,000 (2018: HK$911,774,000) and the weighted average of 3,025,730,000 ordinary shares (2018: 2,995,448,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2019	2018
	'000	*'000*
Issued ordinary shares at 1 January	**3,014,025**	2,871,657
Effect of purchase and cancellation of own shares	**(131)**	—
Effect of share options exercised	**11,836**	123,791
Weighted average number of ordinary shares at 31 December	**3,025,730**	2,995,448

(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$1,136,101,000 (2018: HK$911,774,000) and the weighted average of 3,050,338,000 ordinary shares (2018: 3,040,695,000 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)

	2019	2018
	'000	*'000*
Weighted average number of ordinary shares at 31 December (basic)	**3,025,730**	2,995,448
Effect of deemed issue of shares under the Company's share option scheme	**24,608**	45,247
Weighted average number of ordinary shares at 31 December (diluted)	**3,050,338**	3,040,695

7. Trade and bills receivables

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**1,681,143**	1,177,794
Bills receivable	**130,573**	99,518
	1,811,716	1,277,312
Less: Loss allowance	**(8,437)**	(5,888)
	1,803,279	1,271,424

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 2019, the Group endorsed certain bank acceptance bills to suppliers for settling payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations, should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of these bills are of good credit quality and non-settlement of these bills by the issuing banks on maturity is not probable.

As at 31 December 2019, 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$573 million (31 December 2018: HK$544 million). Bills receivable were therefore derecognised.

Ageing analysis

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

	2019	2018
	HK$'000	*HK$'000*
Within 3 months	**1,244,219**	986,536
4 to 6 months	**385,524**	225,455
7 to 12 months	**179,291**	65,260
1 to 2 years	**2,682**	61
	1,811,716	1,277,312

8. Trade payables

	2019	2018
	HK$'000	*HK$'000*
Within 3 months	**147,966**	141,222
4 to 6 months	**17,062**	5,157
7 to 12 months	**5,718**	1,088
1 to 3 years	**295**	433
More than 3 years	**757**	605
	171,798	148,505

9. Dividends and share capital

(a) Dividends

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

	2019	2018
	HK$'000	*HK$'000*
Interim dividend declared and paid of HK5.0 cents per ordinary share (2018: HK4.0 cents per ordinary share)	**151,701**	120,561
Final dividend proposed after the end of the reporting period of HK6.0 cents per ordinary share (2018: HK5.0 cents per ordinary share)	**181,940**	150,701
	333,641	271,262

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:

	2019	2018
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK5.0 cents per share (2018: HK4.0 cents per share)	**150,701**	120,561

(b) Share capital

(i) Issued share capital

	2019		2018	
	No. of shares *('000)*	***HK$'000***	No. of shares *('000)*	*HK$'000*
Ordinary shares of HK$0.02 each, issued and fully paid:				
At 1 January	**3,014,025**	**67,088**	2,871,657	64,241
Purchase and cancellation of own shares	**(1,700)**	**(34)**	—	—
Shares issued under share option scheme	**20,000**	**400**	142,368	2,847
	3,032,325	**67,454**	3,014,025	67,088

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

For the year ended 31 December 2019, 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 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. 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 glass and PP plastic. The Group's medical materials are mainly manufactured and sold by Jiangsu Best New Medical Material Co., Ltd. ("Jiangsu Best"), which was also a wholly-owned subsidiary in the Group.

Majority of the Group's sales are conducted in the PRC and are denominated in Renminbi ("RMB"), which depreciated by approximately 3.8% when translated into Hong Kong dollars ("HK$") for the year ended 31 December 2019 as compared with last year. Nevertheless, as a result of the increase in sales volumes of intravenous infusion solutions and ampoule injections, revenue of the Group for the year ended 31 December 2019 increased to HK$4,635,675,000 (2018: HK$4,180,788,000), representing a growth of 10.9% on a year-to-year basis. Among which, revenue from intravenous infusion solution products contributed HK$3,876,819,000 (2018: HK$3,695,807,000), representing a growth of 4.9% on a year-to-year basis. Among which, revenue from Non-PVC Soft Bag and Upright Soft Bag infusion solution were HK$1,939,661,000 and HK$633,776,000 respectively, totalling HK$2,573,437,000, representing 66.4% of the revenue from intravenous infusion solution and an increase of 6.7% as compared with last year; revenue from PP Plastic Bottle infusion solution was HK$861,261,000, representing 22.2% of the revenue from intravenous infusion solution and an increase of 5.8% as compared with last year; revenue from Glass Bottle infusion solution was HK$442,121,000, representing 11.4% of the revenue from intravenous infusion solution and a decrease of 5.7% as compared with last year. Revenue from ampoule injection accounted for HK$391,600,000 (2018: HK$127,270,000), representing a significant increase of 207.7% as compared with last year.

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

Revenue from medical materials contributed HK$161,566,000 (2018: HK$154,385,000) to the Group, representing an increase of 4.7% as compared with last year.

Cost of Sales

The Group's cost of sales increased by 11.7% to HK$1,758,842,000 for the year ended 31 December 2019 as compared to last year of HK$1,574,415,000. The cost of direct materials, direct labour and other costs represented approximately 64.0%, 14.3% and 21.7% of the total cost of sales respectively for the year ended 31 December 2019 while their comparative percentages for 2018 were 57.8%, 15.8% and 26.4% respectively.

Gross Profit Margin

For the year ended 31 December 2019, the Group recorded a total gross profit of HK$2,876,833,000 (2018: HK$2,606,373,000). Overall gross profit margin slightly decreased by 0.2 percentage point to 62.1% from that of last year 62.3%.

Other Income

For the year ended 31 December 2019, the Group's other income amounted to HK$157,886,000 (2018: HK$73,389,000) which mainly represented a gain on disposal of assets held for sale of HK$131,456,000 (2018: Nil) and income from government grants of HK$17,041,000 (2018: HK$68,693,000).

Selling and Distribution Costs

For the year ended 31 December 2019, selling and distribution costs amounted to approximately HK$1,261,406,000 (2018: HK$1,230,047,000), which mainly consisted of transportation cost of approximately HK$430,395,000 (2018: HK$512,952,000), marketing service expenses of approximately HK$476,096,000 (2018: HK$367,481,000), advertising expenses of approximately HK$203,785,000 (2018: HK$190,961,000) as well as staff expenses for sales and marketing staff of approximately HK$66,326,000 (2018: HK$64,585,000).

Selling and distribution costs increased by 2.5% for the year ended 31 December 2019 as compared with last year. Such increase was caused by increases in marketing service and advertising expenses due to the Group's continuous expansion in sales and products coverage, but it was offset by a decrease in transportation cost due to price reduction by service providers and efficiency improvement in products logistics.

General and Administrative Expenses

For the year ended 31 December 2019, general and administrative expenses was approximately HK$381,657,000 (2018: HK$336,260,000) which mainly comprised staff expenses for administrative staff of approximately HK$158,108,000 (2018: HK$117,161,000) as well as depreciation and amortisation expenses of approximately HK$83,441,000 (2018: HK$90,130,000).

The increase of 13.5% in general and administrative expenses in 2019 as compared to that of 2018 was mainly due to a higher staff cost as a result of the Group's overall expansion in business and more staff involved in the new bulk pharmaceuticals project.

Profit from Operations

For the year ended 31 December 2019, the Group's profit from operations amounted to HK$1,391,656,000, representing an increase of 25.0% as compared to HK$1,113,455,000 in 2018. The operating profit margin (defined as operating profit divided by total revenue) increased to 30.0% as compared to 26.6% in 2018.

Finance Costs — net

The Group's net finance costs in 2019 amounted to HK$30,513,000 (2018: HK$34,312,000), which represented mainly interest expenses of bank borrowings less interest income on bank deposits. The decrease of 11.1% in net finance costs was mainly due to higher interest income from larger bank deposits on average.

Income Tax Expense

The Group believes that Shijiazhuang No. 4 Pharma, Jiangsu Best, Hebei Hanlin Biotechnology Co., Ltd. and Hebei Guolong Pharmaceutical Co., Ltd. are qualified as the High and New Technology Enterprise and thus subject to a 15% preferential income tax in the PRC for both 2019 and 2018. For the year ended 31 December 2019, the income tax expense of the Group increased by 36.1% to HK$223,838,000 (2018: HK$164,524,000) mainly due to higher profits before taxation of the Group and a withholding tax provision arising from dividend distribution to be made out of the PRC subsidiary.

Profit Attributable to Equity Shareholders

Profit attributable to equity shareholders of the Company in 2019 increased by 24.6% to HK$1,136,101,000 (2018: HK$911,774,000). The net profit margin (defined as profit attributable to equity shareholders of the Company divided by total revenue) increased from 21.8% last year to 24.5% 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 2019, the cash and cash equivalents aggregated to HK$817,429,000 (2018: HK$902,062,000), mostly were denominated in RMB.

As at 31 December 2019 , the Group's bank borrowings amounted to HK$1,695,857,000 (2018: HK$1,494,502,000), comprising HK$717,810,000 (2018: HK$639,123,000) of borrowings denominated in RMB and HK$978,047,000 (2018: HK$855,379,000) in Hong Kong dollars. As at 31 December 2019, 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 12.3% as at 31 December 2018 to 15.0% as at 31 December 2019. Current ratio (defined as current assets divided by current liabilities) decreased from 2.22 as at 31 December 2018 to 2.13 as at 31 December 2019. Overall, the Group continued to maintain a sound liquidity position and a low-risk capital structure in view of opportunities as well as uncertainties in the future.

As at 31 December 2019, the Group's total capital commitments outstanding but not provided for was HK$538,249,000 (31 December 2018: HK$505,649,000).

EMPLOYEES AND REMUNERATION POLICY

As its business operation keeps growing, the Group had a need to strengthen its workforce to approximately 4,800 employees as at 31 December 2019 (2018: 4,100 employees), most of whom were based in the PRC. The remuneration policy of employees other than executive Directors and senior management is based on industry practice and is periodically reviewed by executive Directors or senior management. Apart from social insurance and in-house training programmes, other kinds of remuneration such as discretionary bonuses, share options under the Share Option Scheme and shares granted under the Restricted Share Award Scheme may be awarded to eligible employees according to the assessment of individual performance.

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

The total remuneration cost incurred by the Group for year ended 31 December 2019 was approximately HK$476,147,000 (2018: HK$430,055,000).

CHARGE ON ASSETS

As at 31 December 2019, the Group's land use right of HK$52,156,000 (2018: land use right of HK$72,984,000 and property, plant and equipment of HK$28,273,000) were pledged as collateral for the Group's borrowings. In addition, as at 31 December 2019, the Group's land use right of HK$17,600,000 and property, plant and equipment of HK$26,624,000 were under the process of the release as collateral for the Group's borrowings which has been repaid.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE RISK

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

As at 2019 and 2018, the exchange rates of converting HK$ into RMB (as calculated in HK$) were:

1 January 2018	0.83591
31 December 2018	0.87620
31 December 2019	0.89578

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save for the purchase of 1,700,000 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 2019.

During the year ended 31 December 2019, the Company acquired an aggregate of 1,700,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of HK$10,152,000 which details are set out below. As at 31 December 2019, all of the 1,700,000 shares have been cancelled.

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$)*
23 October 2019	600,000	5.95	5.87	3,567,000
9 December 2019	1,100,000	5.99	5.94	6,585,000
	1,700,000			10,152,000

SHARE OPTION SCHEME

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

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

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

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

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

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 2019, a total of 20,000,000 (2018: 70,000,000) share options were exercised by Mr. Qu Jiguang and, as a result, a total of 20,000,000 (2018: 70,000,000) ordinary shares of the Company was issued. As at 31 December 2019, a total of 32,000,000 share options remained outstanding and exercisable.

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

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

	2019	2018
Outstanding at the beginning of the year	**52,000,000**	194,368,000
Granted during the year	**—**	—
Exercised during the year	**(20,000,000)**	(142,368,000)
Lapsed during the year	**—**	—
Outstanding and exercisable at the end of the year	**32,000,000**	52,000,000

As at 31 December 2019, the share options granted under Share Option Scheme and remained outstanding had an weighted average exercise price of HK$2.58 (31 December 2018: HK$2.58) and a remaining contractual life of approximately 1.29 years (31 December 2018: 2.29 years).

The details of share options movements during the year ended 31 December 2019 are shown as follows:

Name of Director	Date of grant	Exercise price per share	Exercisable period	Number of share options Outstanding at 1 Jan 2019	Granted during the year	Exercised during the year	Outstanding at 31 Dec 2019
Mr. Qu Jiguang	15 Apr 2016	HK$2.58	15 Apr 2016 — 14 Apr 2021	52,000,000	—	(20,000,000)	32,000,000

Assuming that all share options outstanding as at 31 December 2019 are exercised, the Company will receive proceeds of approximately HK$82,560,000.

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.

As at 31 December 2019 and up to the date of this announcement, no Shares have been purchased by the trustee and no shares have been awarded to any Selected Participants pursuant to the Restricted Share Award Scheme since the Adoption Date.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the latest practicable date, being 30 March 2020, and at all times during the year ended 31 December 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted various policies to ensure compliance with the 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"). During the year ended 31 December 2019, the Company has complied with all applicable code provisions of CG Code except the followings:

Code provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Board appointed Mr. Qu Jiguang as the Chairman, who was responsible for the leadership and effective running of the Board. Mr. Qu Jiguang has also assumed the role as the chief executive officer of the Company, who was delegated with the responsibilities to lead the management implementing the business strategies of the Group. The Company believes that vesting both roles in Mr. Qu Jiguang will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

Code provision A.6.7 stipulates that, generally, independent non-executive directors and other non-executive directors should also attend general meetings to gain and develop a balanced understanding of the views of shareholders. For the annual general meeting of the Company held on 8 May 2019, Mr. Feng Hao (the non-executive director of the Company) and Mr. Wang Yibing (one of the independent non-executive directors of the Company) were unable to attend the meeting because they had more important business engagements on that day.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's annual results for the year ended 31 December 2019 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 2019 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

DIVIDENDS

The Company will consider paying dividends twice a year, which are interim dividend and final dividend. From time to time, the Board may declare interim dividend. Under normal business conditions, and subject to the approval by the shareholders in a general meeting, the Board may recommend final dividend to maintain a stable dividend payout ratio (defined as the 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 2019, an interim dividend of HK$0.05 per share was declared on 26 August 2019 and paid on 20 September 2019 (2018: HK$0.04 per share). The Board recommended a final dividend of HK$0.06 per share (2018: HK$0.05 per share) which, together with the interim dividend of HK$0.05 per share (2018: HK$0.04 per share), will result in total dividends of HK$0.11 per share for the year ended 31 December 2019 (2018: HK$0.09 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 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Wednesday, 27 May 2020 which is the Record Date for the proposed final dividend. The proposed final dividend is expected to be paid on or about Tuesday, 9 June 2020.

ANNUAL GENERAL MEETING

The 2020 Annual General Meeting of the Company will be held at 2:00 p.m. on 22 May 2020 at Rooms 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and a notice of annual general meeting will be published and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 19 May 2020 to Friday, 22 May 2020, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Monday, 18 May 2020.

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 2019 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, 30 March 2020

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