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石四藥集團有限公司 SSY Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2005)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of SSY Group Limited (the "Company"), I hereby present the unaudited interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2021.

I. RESULT AND DIVIDEND DISTRIBUTION

During the first half of 2021, amidst the normality under novel coronavirus epidemic domestically and internationally and despite the severe challenges brought by the unexpected outbreak of the epidemic in Shijiazhuang in early 2021, the Group managed to cope well with unfavorable factors arising from the epidemic with its endeavor in production and implementation of various measures to ensure market support, and thus achieved the stable development of the Group. During the period, the Group continued to promote its business strategy of scientific research, innovation and structural optimization, actively responded to the national and local centralized procurement policies and the new situation of economic changes under the epidemic normality, as well as increased its effort in promoting the formation of the operation pattern of integrated and collaborative development in relation to the whole industry chain and diversified dosage forms from medical materials, bulk pharmaceuticals to high-end preparations. New products and product types under evaluations have been approved successively, providing new momentum for the continuously stable and favourable market development of the Group.

During the first half of the year, the Group achieved a revenue of HK\$2,443 million, representing an increase of 37.0% compared to the corresponding period of last year, and the gross profit margin was 60.2%, representing a decrease of 3.8 percentage point compared to the corresponding period of last year. The net profit was HK\$276 million, representing an increase of 11.6% compared to the corresponding period of last year. The Directors resolved to pay an interim dividend of HK\$0.05 per share on 24 September 2021 to the shareholders named in the register of members of the Company on 13 September 2021, which was unchanged from the corresponding period of last year.

II. BUSINESS REVIEW

	For the six months ended 30 June				
	2021		2020		Increase/ (decrease)
	Revenue <i>HK\$'000</i>	Percentage of revenue %	Revenue <i>HK\$'000</i>	Percentage of revenue %	
Intravenous infusion solution and others	2,362,285	96.7	1,729,412	97.0	36.6
(Including: Non-PVC soft bag & upright soft bag infusion solution	1,058,124	43.3	773,692	43.4	36.8
PP plastic bottle infusion solution	361,076	14.8	297,240	16.6	21.5
Glass bottle infusion solution	108,227	4.4	111,826	6.3	(3.2)
Ampoule injection	487,798	20.0	293,608	16.5	66.1
Bulk pharmaceuticals	246,878	10.1	99,951	5.6	147.0
Others)	100,182	4.1	153,095	8.6	(34.6)
Medical materials	80,505	3.3	53,421	3.0	50.7
Total	2,442,790	100	1,782,833	100	37.0

(1) Sales of Products

During the first half year, the Group focused its efforts on market enhancement in its principal business, including market access, product mix optimization, segment segmentation and emphasis on new featured products. The Group also actively took measures to make new breakthroughs in enhancing the market share of dominant products, and to accelerate the access and growth of new preparation products and common bulk pharmaceuticals.

Taking the opportunity brought by National Centralized Procurement as well as provincial and regional Group Purchasing Organization Programme, the Group took various measures to strengthen the market-driven effect brought by the centralized procurement policy to continuously expand the market accessibility of the Group's products. During the first half year, the Group participated in the fourth and fifth round of National Centralized Medicines Procurement activities, and timely carried out online tendering of new products that had passed through evaluation in Hebei, Shandong, Zhejiang, Shaanxi, Hubei, Jiangsu and other provinces. 2 types with 4 specifications, including Ambroxol Hydrochloride Injection (1ml: 7.5mg, 2ml: 15mg, 4ml: 30mg) and Doxofylline Injection (10mg: 0.1g) were awarded the tender in the fourth round of National Centralized Medicines Procurement. 2 product specifications, including Fluconazole and Sodium Chloride Injection (100ml: 0.2g Fluconazole and 0.9g Sodium Chloride) and Ropivacaine Hydrochloride Injection (10ml: 100mg PP ampoule) were successfully selected in the fifth round of National Centralized Procurement. At present, 6 types and 9 product specifications of the Group have been selected in National Centralized Medicines Procurement, providing favorable conditions for accelerating the convergence and development of new products from regional markets into a national market.

Amidst the normality under epidemic, the supply and demand in the domestic pharmaceutical market was undergoing a gradual recovery, and the production and sales of the Group's infusion solutions, especially therapeutic infusion products, was showing a steady increase in growth. During the first half year, the sales volume of infusion solutions reached 632,110,000 bottles (bags), representing an increase of 31% compared to the corresponding period of last year. The revenue of infusion solutions reached RMB1,273 million, representing an increase of 19% compared to the corresponding period of last year. The series of peritoneal dialysis solution products have been welcomed by the market since its launch, with sales volume reaching 468,000 bags, representing an increase of 1,475%.

Ampoule products have become an important growth driver for the Group's injection segment as it has become increasingly rich in varieties with its production and sales gradually scaled up. The market expansion of ampoule products, including Betahistine Hydrochloride Injection, Bromhexine Hydrochloride Injection and Terbutaline Sulfate spray for inhalation, has been accelerated. At the same time, three of the Group's products, namely Ambroxol Hydrochloride Injection, Doxofylline Injection and Ropivacaine Hydrochloride Injection, were successively included for National Centralized Procurement, forming a new growth point for the Group's ampoule products to achieve rapid breakthrough in scale. During the first half year, the revenue of ampoule products was RMB406,490,000, representing an increase of 53%, which continued to maintain a rapid growth momentum.

In respect of bulk pharmaceuticals business, the domestic and international market demand was showing a recovery growth with the passive situation being gradually reversed. After continuous optimization and improvement of production process, transformation and enhancement of environmental protection treatment capacity, the production capacities of Hebei Guangxiang Pharmaceutical Co., Ltd. and Hebei Guolong Pharmaceutical Co., Ltd. of the Group were released rapidly, and the product advantages such as cost and quality were further demonstrated. During the first half year, Caffeine being the common bulk pharmaceutical of Hebei Guangxiang Pharmaceutical Co., Ltd. achieved an aggregate sales volume of 1,111 tonnes, representing a significant growth compared to same period of last year, and its products were sold to various markets such as South America, Europe and Asia. The sales volume of 128 tonnes of Azithromycin bulk pharmaceuticals of Hebei Guolong Pharmaceutical Co., Ltd. also achieved a relatively rapid growth. With the Group's continuous efforts in the bulk pharmaceuticals segment, the product mix has become increasingly diversified. The production capacities and sales of major bulk pharmaceuticals including Caffeine, Theophylline, Aminophylline, Metronidazole, Azithromycin, Hydroxyethyl starch 130 and Hydroxyethyl starch 40 have been enhanced. As for specialised bulk pharmaceuticals, Lurasidone Hydrochloride, Linezolid Hydrochloride, Terbutaline Sulfate and Blonanserin have been approved by the Center for Drug Evaluation, and Dexmedetomidine Hydrochloride has been scheduled for national approval in the second half year. The technology transfer of a number of new products including Ipratropium Bromide, Cinacalcet Hydrochloride, L-malic acid, Epalrestat, Pentoxifylline, Rosuvastatin Calcium, Pitavastatin Calcium, Argatroban, Lacosamide, Ornidazole and Levornidazole, which are high value-added specialised bulk pharmaceuticals, has been completed and pending for the national approval. The technology transfer of a number of new products including Doxofylline, Tedizolid Phosphate, Safinamide Mesilate and Urapidil Hydrochloride has also been accelerated to promote the progress of industrialization, making it a significant potential for the development of the Group.

Solid preparations business segment has been accelerated its cultivation and expansion. Leveraging on tender awarded for National Centralized Procurement of Cefdinir capsule and Prucalopride Succinate tablet, the Group speeded up the market planning and professional promotion of solid preparations, connected closely the commercial chain with the end market, improved the product accessibility and brand penetration, and gradually enhanced the sales proportion of solid preparations from year to year. During the first half year, Cefdinir capsule and Rosuvastatin Calcium tablet achieved large-scale sales within a short period of time, and the market expanded to the whole of China, of which Cefdinir capsule achieved sales of RMB11,570,000.

As the export of preparations to foreign countries were limited by multiple factors such as the global pandemic and the surge in international sea freight rates, the export of the Group's preparations to foreign countries were greatly affected and reversed its growth. During the first half year, revenue of preparations amounted to RMB24,720,000, representing a decrease of 62% compared to same period of last year, of which amount of infusion decreased by 63%. During the period, the Group continued to carry out overseas product registration, adding 4 new countries and 6 product registration certificates, actively laying a foundation for market recovery.

In respect of medical materials, Jiangsu Best New Medical Material Co., Ltd. continued to strengthen the build-up of innovation capability and enhance the supporting capacity of the downstream production chains in medical materials, including rubber stoppers, infusion films and bioprocessing films, which facilitate the improvement of production capacity and market coverage. Newly developed multi-layer co-extrusion bioprocessing films for single-use system in liquid dosing, which met the relevant requirements under the USP Class VI of the United States Pharmacopoeia and the national standards of the PRC, has been put into industrial production and resulted in sales. The product is widely used in the fields of research and development and production of vaccines and biopharmaceuticals. Currently, it is the only domestic manufacturer of bioprocessing films in China that can replace those imported and has broad market development prospects.

(2) Research and Development of New Products

Upholding the innovation-driven strategy and following along the lines of transformation, upgrade and innovation development, the Group continuously increased its efforts in technological innovation through the innovative platform integrating production, education, research and application, expedited and improved the progress and efficiency of R&D of new products. With the significantly increased innovation achievements, the Group's product portfolio was increasingly enriched and improved, providing a strong driving force for the sustainable development of the Group. Based on the cooperation with several universities and scientific research institutes, the Group also entered into a strategic cooperation agreement with China Pharmaceutical University (中國藥科大學) to promote scientific and technological innovation and accelerate industrialization of scientific and technological achievements by establishing a technology platform of innovative drug research and development integrating production, education and research.

Taking into account of existing and potential markets, the Group is persistent in pushing forward the research and development of innovative drugs and generic drugs as well as the consistency evaluation of generic drugs, and achieved relatively favorable results. Type 1 new drug NP-01, the first innovative drug type of the Group, has completed sample preparation, and its clinical trial research has fully commenced. The Group will continue to push forward the preliminary research on anti-liver fibrosis Type 1 innovative drug AND-9, anti-epileptic compound QO-83 and anti-tumor Type 2 chemical innovative drug Miriplatin.

During the first six months, a total of 7 production approvals were obtained for various types of products, including 4 products approved for consistency evaluation namely Ciprofloxacin Lactate and Sodium Chloride Injection, Fluconazole and Sodium Chloride Injection as well as Metronidazole and Sodium Chloride Injection (100ml and 250ml); 2 types of ampoule namely Bromhexine Hydrochloride Injection and Terbutaline Sulfate Nebuliser Solution; and 1 bulk pharmaceutical product namely Terbutaline Sulfate. In addition, Linezolid Injection, its bulk pharmaceuticals and Lurasidone Hydrochloride bulk pharmaceuticals were approved in July. Moreover, 17 products were submitted to the National Medical Products Administration for approval, including 8 liquid preparations, 6 solid preparations and 3 bulk pharmaceuticals. Azithromycin Dry Suspension (a specialized type for children with high clinical demand), Blonanserin tablets (a psychotropic drug) and Pentoxifylline Injection (cardio-cerebral vascular drug) were the first one of such products being submitted for the new Type 4 exclusively in China. Cefaclor for Suspension for children and Valsartan Amlodipine tablet (a compound preparation) were also submitted to the National Centre for Drug Evaluation as scheduled. During the second half year, a number of featured preparations for children such as Stiripentol for Suspension and Oseltamivir Phosphate for Suspension will be submitted to the State for approval. The continuous expansion of oral preparation product line will inject diversification into the development of the Group's product mix. At present, the Group has submitted a total of 61 new product projects for approval, including 35 items for liquid and solid preparations, 13 products for consistency evaluation and 13 items for bulk pharmaceuticals, facilitating the changes of Group's production and sales structure with the accumulated strength of innovation results.

The research results of products for passing the consistency evaluations was convincing. During the first half year, after passing the consistency evaluations for 4 product specifications, namely Ciprofloxacin Lactate and Sodium Chloride Injection, Fluconazole and Sodium Chloride Injection as well as Metronidazole and Sodium Chloride Injection (100ml and 250ml), as the leader in the industry of such approval, 15 types with 20 product specifications of the Group passed consistency evaluation or were regarded as passing the consistency evaluation, which played a stronger facilitation and stimulation role in consolidating and expanding market shares.

(3) *Development of Projects*

The development of industry infrastructure projects facilitated the acceleration of industry transformation of new products. In an era of supply-side structural adjustment and demand-side refined management, the Group took advantage of the favorable opportunity to accelerate the commercialization process for new products and actively integrate the development of technological transformation projects with business optimization, intelligent manufacturing, refined management and channel development, constructed and built intelligent factories, enhanced the level of intelligent manufacturing, and realized the cost reduction, efficiency improvement and quality assurance in an effective and consistent manner. Projects under construction of Hebei Guolong Pharmaceutical Co., Ltd. have been progressing in an orderly manner, and phase I infrastructure project for environmental protection treatment capacity expansion and transformation has been completed and put into use. The infrastructure works of the bioprocessing film construction project of Jiangsu Best is currently well underway. The new product, 7-layer bioprocessing barrier films of 1.6 metres width, will be put into trial production by the end of the year, and samples will be provided to customers for testing. The second production line for 7-layer bioprocessing barrier films is targeted to put into operation in June 2022, increasing the annual production capacity of bioprocessing films by 20 million square metres, thus enhancing the Group's market supply capacity. Currently, the Group's industrialization projects for 15 new high-end preparation products, such as Lyophilized Powder Injection and Emulsion, were included in Thousands of Technological Transformation Projects (千項技改項目) in Hebei Province. With the support of the government, commercialization process for such products were accelerated for implementation, aiming to commence production and generate results as soon as possible. Upon completion of the projects, the Group will further enhance its production capacity of new products in segments such as drug preparations and bulk pharmaceuticals, accelerate the adjustment of product mix, and provide assistance to the improvement and leaping development of the industry.

III. PROSPECTS FOR DEVELOPMENT

Looking forward in the second half of 2021, as the global epidemic is still evolving and the external environment is becoming more severe, the domestic economic recovery may be still unstable and uneven with the overall domestic and international economic situation remains complicated and dynamic. Facing the pressure arising from external factors that may persist and bring new challenges to the Group's production and operation, the Group will continue to keep its composure, uphold its development focus, accelerate the establishment of a new development landscape, strive to implement supply chain enhancement works, promote technological innovation and strengthen the resilience of the industry chain and supply chain. The Group will also do its best in maintaining the momentum in sustainable and stable development, promote development by innovation, and improve efficiency by management.

1. Through the combination of the national and provincial Centralized Medicines Procurement, we will strive to do our best in market access. As the intravenous infusion solution industry has become increasingly concentrated and under the effect of survival of the fittest, the small and medium enterprises have exited from the industry one after another. The Group has been gaining greater market share and remains its leading position in the infusion market. In respect of the intravenous infusion solutions segment, we will seize the favorable opportunity of market recovery growth to ensure a significant growth of its sales volume as compared to last year. Meanwhile, we will continue to strengthen the proportion in sales of therapeutic and specialized infusion products, and make preliminary preparation for the market development of new products such as Fat Emulsion Injection, so as to continuously improve the profitability of the infusion solutions segment. We will accelerate the cultivation and expansion of the featured product market size of new ampoule products such as Ambroxol Hydrochloride Injection, Doxofylline Injection, Ropivacaine Hydrochloride Injection, as well as Betahistine Hydrochloride and Sodium Chloride Injection. We will also expand, strengthen and optimize the ampoule business segment, making a greater contribution to the development of the Group. At the same time, we will push forward the promotion and usage of bioprocessing films in China, so as to strengthen the Group's position in the industry and product influence in the field of medical materials.
2. With the goal of reducing costs and improving capacity utilization, we will actively cultivate and expand the bulk pharmaceuticals business. We will strengthen fundamental management works in as cost reduction, efficiency improvement, technological advancement, safety enhancement and environmental protection. We will improve management ability of our team, speed up utilization of the production capacity, and enhance the Group's overall level in terms of industrialization, scale, modernization and marketization of bulk pharmaceuticals. In the meantime, we will seize the favorable opportunity brought by the recovery of international market demand for caffeine and continue to secure the orders from target customers in South America, Europe, South Asia and Southeast Asia, striving to achieve the target sales volume and revenue.

3. With a higher position with a wider vision, we will push forward the Group's research & development and innovative business to a new stage.

Firstly, the Group will adhere to the development idea of “combination of generic and innovative drugs”, reinforcing the Group's technological and product advantages in the injection industry in China. We will strengthen development of new types of oral preparations, bulk pharmaceuticals and medical materials, and will speed up the formation of our edges in the research and development of drugs for chronic diseases, circulatory systems, emergency anesthesia drugs, antipyretic and analgesic drugs, new anti-infective drugs, anti-tumor drugs, as well as medical materials. The sustainable development of the Group will be consolidated. During the second half year, with a recent approval for new product of bulk pharmaceuticals for Blonanserin in August, the Group will continue to refine its responsibilities and improve efficiency, and strive to obtain the approvals of 3 new products for preparations, namely Levornidazole and Sodium Chloride Injection, Dexmedetomidine Hydrochloride Injection and Lacosamide tablet, and the approvals of 3 new products for bulk pharmaceuticals, namely Dexmedetomidine Hydrochloride, Ipratropium Bromide and Cinacalcet Hydrochloride. Meanwhile, the Group will further develop the development and technology of bioprocessing films, and accelerate the research and production of market-leading cell culture bag films and bioreactor films on the basis of improving the existing liquid storage bag film product series, and form core advantages of research and development of domestic bioprocessing film production with comprehensive functions, sound system and leading technologies.

Secondly, the Group will strive to make new breakthroughs in the research and development of innovative drugs. The Group will push forward the phase I clinical trial of anti-tumor Type 1 innovative drug NP-01, and speed up preliminary researches on anti-liver fibrosis Type 1 innovative drug AND-9, anti-epileptic compound QO-83 and anti-tumor Type 2 chemical innovative drug Miriplatin, so as to apply for clinical registration as soon as possible.

Thirdly, the Group will proactively construct an innovative research and development high-energy ecosystem, dip deep the advantages of convergence of technology, talents and capital to continuously improve the levels and grades of innovation development. Leveraging on its resource advantages, the Group will integrate tertiary institutions, research institutes, healthcare institutions and enterprises in upstream and downstream in the industry, so as to start cooperation or jointly build platforms such as laboratories and research institutes, promote the construction of an industrial ecosystem of organic innovation and cooperation, empower continuously the Group's innovation ability and efficiency of research and development business, and enhance the effectiveness of corporate innovation and core competitiveness. The Group will push forward the cooperation with China Pharmaceutical University, Zhengzhou University, Chinese Academy of Medical Sciences and other research institutes in tertiary institutions in innovative drug research for new breakthroughs.

4. The Group will actively seek opportunities of merger and acquisition as well as investment in the pharmaceutical industry. The intense market competition and the guidance of the national policies will trigger more mergers and acquisitions in the pharmaceutical industry. Combining its own advantages, the Group will seize the opportunities of merger and acquisition as well as investment in order to strengthen its market position and product position so as to increase its return on investment.

We strive for business achievement. Looking forward to “14th Five-Year Plan”, facing the long-term risks and challenges in the post-pandemic era, the pharmaceutical industry will be in a critical period of continuous development. Our exclusive innovation driven by clinical demand, the integration and collaboration based on controllable supply chain, and the enhanced efficiency brought by the trend of digital transformation will become the important drivers for the progress and breakthroughs of the industry and the demand side of the Group.

As one of the top 100 enterprises in China pharmaceutical industry and the top 30 best industrial enterprises with China pharmaceutical research and development product line, the Group will take full advantage of the market, policy opportunities arising from the positive changes in the domestic pharmaceutical market and the promotion of the construction and development of provincial capitals in Hebei Province, and the promotion of supporting the biopharmaceutical industry to make breakthroughs in Shijiazhuang, we will firmly grasp the initiative of development, maintain the resilience and vitality of innovation and development, overcome difficulties and tackle barriers, assume our mission with courage, and strive for facilitating the quality development of the Group. By virtue of the scale advantages, quality advantages, management advantages and brand advantages accumulated in the industry over the years that continuously stimulate innovation momentum, we firmly believe that we are possible to bring satisfactory returns to our investors with stronger development achievement.

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

Consolidated statement of profit or loss and other comprehensive income*for the six months ended 30 June 2021 (unaudited)**(Expressed in Hong Kong dollars)*

		Six months ended 30 June	
		2021	2020
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	2,442,790	1,782,833
Cost of sales		<u>(973,075)</u>	<u>(641,572)</u>
Gross profit		1,469,715	1,141,261
Other net income		40,566	37,825
Selling and distribution costs		(862,274)	(670,798)
General and administrative expenses		(153,520)	(137,657)
Research and development costs		(134,947)	(49,629)
Impairment losses on trade, bills and other receivables		<u>—</u>	<u>(13,561)</u>
Profit from operations		359,540	307,441
Finance income		8,443	11,731
Finance costs		<u>(29,007)</u>	<u>(27,843)</u>
Finance costs — net	4(a)	<u>(20,564)</u>	<u>(16,112)</u>
Profit before taxation	4	338,976	291,329
Income tax	5	<u>(60,945)</u>	<u>(43,629)</u>
Profit for the period		<u>278,031</u>	<u>247,700</u>
Other comprehensive income for the period, net of nil tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency		<u>78,717</u>	<u>(122,309)</u>
Other comprehensive income for the period		<u>78,717</u>	<u>(122,309)</u>
Total comprehensive income for the period		<u>356,748</u>	<u>125,391</u>

		Six months ended 30 June	
		2021	2020
	<i>Note</i>	HK\$'000	HK\$'000
Profit attributable to:			
Equity shareholders of the Company		275,661	247,035
Non-controlling interests		<u>2,370</u>	<u>665</u>
Profit for the period		<u>278,031</u>	<u>247,700</u>
Total comprehensive income attributable to:			
Equity shareholders of the Company		351,353	128,612
Non-controlling interests		<u>5,395</u>	<u>(3,221)</u>
Total comprehensive income for the period		<u>356,748</u>	<u>125,391</u>
Earnings per share	<i>6</i>		
Basic		<u>HK\$0.0910</u>	<u>HK\$0.0815</u>
Diluted		<u>HK\$0.0907</u>	<u>HK\$0.0811</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2021 (unaudited)

(Expressed in Hong Kong dollars)

		At 30 June 2021		At 31 December 2020	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Property, plant and equipment			3,913,509		3,836,141
Right-of-use assets			331,412		333,382
Intangible assets			767,176		685,389
Other non-current assets			18,027		—
Deferred tax assets			25,611		20,863
Pledged bank deposits and fixed deposits			48,519		119,335
			<u>5,104,254</u>		<u>4,995,110</u>
Current assets					
Inventories		746,891		638,301	
Trade and bills receivables	7	2,003,469		1,813,313	
Prepayments, deposits and other receivables		313,846		294,709	
Pledged bank deposits and time deposits		93,956		66,369	
Cash and cash equivalents		1,302,061		1,445,905	
		<u>4,460,223</u>		<u>4,258,597</u>	
Current liabilities					
Borrowings		1,140,665		1,327,115	
Trade payables	8	324,587		240,562	
Contract liabilities		47,575		45,929	
Lease liabilities		2,968		3,664	
Accruals and other payables		482,437		469,591	
Income tax payable		2,824		30,883	
		<u>2,001,056</u>		<u>2,117,744</u>	
Net current assets			<u>2,459,167</u>		<u>2,140,853</u>
Total assets less current liabilities			7,563,421		7,135,963

	<i>Note</i>	At 30 June 2021		At 31 December 2020	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities					
Borrowings		1,330,218		1,099,957	
Lease liabilities		3,219		4,610	
Deferred tax liabilities		13,054		19,348	
Deferred revenue		109,556		96,837	
			<u>1,456,047</u>		<u>1,220,752</u>
NET ASSETS			<u>6,107,374</u>		<u>5,915,211</u>
CAPITAL AND RESERVES 9					
Share capital			67,329		67,682
Reserves			5,774,415		5,584,354
Total equity attributable to equity shareholders of the Company			<u>5,841,744</u>		<u>5,652,036</u>
Non-controlling interests			<u>265,630</u>		<u>263,175</u>
TOTAL EQUITY			<u>6,107,374</u>		<u>5,915,211</u>

SELECTED NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 27 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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

The financial information relating to the financial year ended 31 December 2020 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements. The Company’s annual consolidated financial statements for the year ended 31 December 2020 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2021.

2. Changes in accounting policies

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

- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. Revenue and segment reporting

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

(a) Disaggregation of revenue

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

	Six months ended 30 June	
	2021	2020
	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	2,358,647	1,724,389
— Sales of medical materials	78,888	52,674
— Services income	770	2,468
— Sales of raw materials and by-products	4,359	3,187
	2,442,664	1,782,718
Revenue from other source		
— Rental income	126	115
	2,442,790	1,782,833
	2,442,790	1,782,833
Disaggregated by geographical location of customers		
— The PRC (place of domicile)	2,246,131	1,691,717
— Other countries	196,659	91,116
	2,442,790	1,782,833
	2,442,790	1,782,833

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

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

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

	Six months ended 30 June 2021			
	Intravenous infusion solution and others HK\$'000	Medical materials HK\$'000	Unallocated HK\$'000	Total HK\$'000
Disaggregated by timing of revenue recognition				
Point in time	2,361,515	80,379	—	2,441,894
Over time	770	126	—	896
Revenue from external customers	2,362,285	80,505	—	2,442,790
Inter-segment revenue	10,013	81,542	—	91,555
Reportable segment revenue	2,372,298	162,047	—	2,534,345
Operating profit or loss/segment results	428,245	7,941	(76,646)	359,540
Finance income	8,044	31	368	8,443
Finance costs	(20,392)	—	(8,615)	(29,007)
Profit/(loss) before income tax	415,897	7,972	(84,893)	338,976
Income tax	(57,999)	(2,946)	—	(60,945)
Reportable segment profit/(loss) for the period	357,898	5,026	(84,893)	278,031

Six months ended 30 June 2020

	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	1,726,944	53,306	—	1,780,250
Over time	2,468	115	—	2,583
Revenue from external customers	1,729,412	53,421	—	1,782,833
Inter-segment revenue	10,553	49,986	—	60,539
Reportable segment revenue	1,739,965	103,407	—	1,843,372
Operating profit or loss/segment results	317,609	(751)	(9,417)	307,441
Finance income	11,697	12	22	11,731
Finance costs	(16,380)	—	(11,463)	(27,843)
Profit/(loss) before income tax	312,926	(739)	(20,858)	291,329
Income tax	(43,296)	(333)	—	(43,629)
Reportable segment profit/(loss) for the period	269,630	(1,072)	(20,858)	247,700

At 30 June 2021

	Intravenous infusion solution and others <i>HK\$'000</i>	Medical materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	9,039,888	378,363	146,226	9,564,477
Reportable segment liabilities	2,458,478	18,530	980,095	3,457,103

At 31 December 2020

	Intravenous infusion solution and others <i>HK\$'000</i>	Medical materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	8,688,670	343,294	221,743	9,253,707
Reportable segment liabilities	2,335,141	24,228	979,127	3,338,496

4. Profit before taxation

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

(a) Finance income and costs

	Six months ended 30 June	
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Finance income:		
— Interest income on bank deposits	(13,248)	(10,411)
— Net foreign exchange loss/(gain)	4,805	(1,320)
	<u> </u>	<u> </u>
Finance income	(8,443)	(11,731)
	<u> </u>	<u> </u>
Finance costs:		
— Interest expense of borrowings	31,130	34,519
— Interest on lease liabilities	152	120
Less: Interest expense capitalised into qualifying assets *	(2,275)	(6,796)
	<u> </u>	<u> </u>
Finance costs	29,007	27,843
	<u> </u>	<u> </u>
Finance costs — net	20,564	16,112
	<u> </u>	<u> </u>

* During the six months ended 30 June 2021, the borrowing costs have been capitalised at a rate of 4.75% per annum (six months ended 30 June 2020: 4.05%).

(b) Other items

	Six months ended 30 June	
	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Research and development costs	217,442	84,849
Less: Costs capitalised into intangible assets	(82,495)	(35,220)
	<u> </u>	<u> </u>
	134,947	49,629
	<u> </u>	<u> </u>
Loss/(gain) on disposal of property, plant and equipment	251	(1,153)
Government grants	(26,746)	(27,911)
Depreciation charges		
— owned property, plant and equipment	178,321	139,401
— right-of-use assets	5,711	5,219
Amortisation of intangible assets	9,076	7,853
Net gain on trading securities	(10,716)	—

5. Income tax

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Current tax — PRC corporate income tax (“CIT”)	71,965	56,881
Deferred taxation	(11,020)	(13,252)
	<u>60,945</u>	<u>43,629</u>

Shijiazhuang No. 4 Pharmaceutical Co., Ltd. (“Shijiazhuang No.4”), Jiangsu Best New Medical Material Co., Ltd. (“Jiangsu Best”), Hebei Guangxiang Pharmaceutical Co., Ltd. (“Hebei Guangxiang”), Hebei Guolong Pharmaceutical Co., Ltd. and Hebei Hanlin Biotechnology Co., Ltd. have been certified as High and New Technology Enterprises (“HNTE”) in 2018, 2020, 2020, 2020 and 2018, respectively. According to the tax incentives rules of the CIT Law of the People’s Republic of China (the “CIT Law”) for High and New Technology Enterprises, these entities are subject to preferential income tax rate of 15% for three years. 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.

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

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

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

6. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$275,661,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$247,035,000) and the weighted average of 3,028,502,000 ordinary shares (six months ended 30 June 2020: 3,031,537,000 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$275,661,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: HK\$247,035,000) and the weighted average number of 3,038,110,000 ordinary shares for the six months ended 30 June 2021 (six months ended 30 June 2020: 3,047,931,000 ordinary shares) after adjusting for the effects of dilutive potential ordinary shares under the Company's share option scheme, calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2021 '000	2020 '000
Weighted average number of ordinary shares at 30 June (basic)	3,028,502	3,031,537
Effect of deemed issue of shares under the Company's share option scheme	<u>9,608</u>	<u>16,394</u>
Weighted average number of ordinary shares at 30 June (diluted)	<u><u>3,038,110</u></u>	<u><u>3,047,931</u></u>

7. Trade and bills receivables

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

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Within 3 months	1,284,001	1,241,113
4 to 6 months	405,555	332,059
7 to 12 months	281,593	226,460
1 to 2 years	38,906	22,310
Over 2 years	2,142	—
<i>Less: Loss allowance</i>	<u>(8,728)</u>	<u>(8,629)</u>
	<u><u>2,003,469</u></u>	<u><u>1,813,313</u></u>

As at 30 June 2021, bills receivable of HK\$210,494,000 (31 December 2020: HK\$193,407,000) represent short-term bank acceptance bills receivable that entitle the Group to receive the full face amount from the banks at maturity, which generally ranges from 3 to 12 months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivable. The Group from time to time endorses bills receivable to suppliers in order to settle payables.

As at 30 June 2021, the Group endorsed certain bank acceptance bills to suppliers for settling payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than twelve months from the end of the reporting period. In the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations, should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of these bills are of good credit quality and non-settlement of these bills by the issuing banks on maturity is not probable. Bills receivable were therefore derecognised. As at 30 June 2021, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to approximately HK\$418 million (31 December 2020: HK\$480 million).

8. Trade payables

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

	30 June 2021 HK\$'000	31 December 2020 HK\$'000
Within 3 months	280,110	207,145
4 to 6 months	26,252	20,391
7 to 12 months	11,229	9,528
1 to 3 years	5,941	2,788
More than 3 years	1,055	710
	324,587	240,562

9. Capital, reserves and dividends

(a) Dividends

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

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Interim dividend declared and paid after the interim period, of HK5.0 cents per share (30 June 2020: HK5.0 cents per share)	<u>151,305</u>	<u>151,023</u>

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

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

	Six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Final dividend proposed after the end of the reporting period of HK5.0 cents per share (30 June 2020: HK6.0 cents per share)	<u>151,305</u>	<u>181,837</u>

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

(b) Purchase and cancellation of own shares

During the six months ended 30 June 2021, the Company repurchased and cancelled a total of 17,626,000 (six months ended 30 June 2020: 2,530,000) ordinary shares of the Company through the Stock Exchange at an aggregate consideration of approximately HK\$77,390,000 (six months ended 30 June 2020: HK\$14,150,000).

(c) Equity settled share-based transactions

On 12 January 2021, 100,000,000 share options were granted to seven employees of the Group, at a consideration of HK\$1.00 in sum for each employee (no share options were granted during the six months ended 30 June 2020). Each option entitles the holder to subscribe for one ordinary share in the Company. These share options vest immediately and are exercisable within a period of 5 years. The exercise price is HK\$4.218. The Group has no legal or constructive obligation to repurchase or settle the share options in cash.

No share options were exercised during the six months ended 30 June 2021 (year ended 31 December 2020: 32,000,000). As at 30 June 2021, the total number of share options outstanding and exercisable was 100,000,000 (31 December 2020: nil).

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. The fair value of share options granted during the six months ended 30 June 2021 is HK\$67,050,000 (2020: nil). The estimate of the fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model.

Fair value of share options and assumptions	2021
Fair value at measurement dates	HK\$0.67
Share price	HK\$4.13
Exercise price	HK\$4.218
Expected volatility (expressed as a weighted average volatility used in the modelling under binomial tree model)	40%
Option life	5 years
Suboptimal exercise factor	1.19
Expected dividend yield	2.66%
Average risk-free interest rate	0.15%

The expected volatility is determined by reference to the average implied volatility of comparable companies that manufacture similar products as the Group.

Expected dividend yield is based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

In respect of share options granted during the six months ended 30 June 2021, the service condition has been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with these share options.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

For the six months ended 30 June 2021, 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

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 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 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. During the first half year of 2021, as the novel coronavirus epidemic has been under control in the PRC, the pharmaceutical market has been showing signs of recovery from last year. In terms of HK\$, revenue of the Group for the six months ended 30 June 2021 increased by 37.0% from HK\$1,782,833,000 in corresponding period of last year to HK\$2,442,790,000. Among which, revenue from intravenous infusion solution accounted for HK\$1,527,427,000 (30 June 2020: HK\$1,182,758,000), representing an increase of 29.1% as compared with corresponding period of last year. Among which, revenue from Non-PVC Soft Bag and Upright Soft Bag Infusion Solution were HK\$778,135,000 and HK\$279,989,000 respectively, totalling HK\$1,058,124,000, respectively an increase of 36.8% as compared with corresponding period of last year and accounted for 69.3% of revenue from intravenous infusion solution; revenue from PP Plastic Bottle Infusion Solution was HK\$361,076,000, respectively an increase of 21.5% as compared with corresponding period of last year and accounted for 23.6% of revenue from intravenous infusion solution; revenue from Glass Bottle Infusion Solution was HK\$108,227,000, respectively a decrease of 3.2% as compared with corresponding period of last year and accounted for 7.1% of revenue from intravenous infusion solution.

On the other hand, the Group has put a lot of effort in product diversification. The Group has been promoting high-end ampoule injections products in view of its high growth potential, as a result, revenue from ampoule injections accounted for HK\$487,798,000 (30 June 2020: HK\$293,608,000), representing an increase of 66.1% as compared with corresponding period of last year. Revenue from bulk pharmaceuticals accounted for HK\$246,878,000 (30 June 2020: HK\$99,951,000), representing an increase of 147.0% as compared with corresponding period of last year mainly due to a recovery growth of market demand for bulk pharmaceuticals and an increase in the Group's production capacity in bulk pharmaceuticals.

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

Revenue from medical materials products contributed HK\$80,505,000 (30 June 2020: HK\$53,421,000) to the Group, representing an increase of 50.7% as compared with corresponding period of last year mainly due to market recovery from last year.

Cost of sales

The Group has been adopting various cost control measures such as production process optimization, equipment modification and energy conservation. Nevertheless, under a general trend of rising costs in production and due to increase in sales volume, the Group's cost of sales increased by 51.7% to HK\$973,075,000 for the six months ended 30 June 2021 as compared to the corresponding period last year of HK\$641,572,000. The cost of direct materials, direct labour and other costs represented approximately 54.9%, 15.0% and 30.1% of the total cost of sales respectively, while their comparative percentages for the corresponding period last year were 59.2%, 16.2% and 24.6% respectively.

Gross profit margin

For the six months ended 30 June 2021, the Group recorded a total gross profit of HK\$1,469,715,000 (30 June 2020: HK\$1,141,261,000). Overall gross profit margin decreased by 3.8 percentage point to 60.2% for the six months ended 30 June 2021 from 64.0% for the corresponding period last year, which was mainly due to a general trend of rising costs in production and an increased proportion of revenue from bulk pharmaceuticals which had a lower gross profit margin as compared to finished medicines.

Other net income

For the six months ended 30 June 2021, the Group's other net income increased to approximately HK\$40,566,000 (30 June 2020: HK\$37,825,000) which mainly represented government grants.

Selling and distribution costs

For the six months ended 30 June 2021, selling and distribution costs amounted to approximately HK\$862,274,000 (30 June 2020: HK\$670,798,000), which mainly consisted of advertising, marketing and promotion expenses of approximately HK\$570,371,000 (30 June 2020: HK\$470,710,000), transportation cost of approximately HK\$208,018,000 (30 June 2020: HK\$143,956,000) as well as salary expenses for sales and marketing staff of approximately HK\$32,659,000 (30 June 2020: HK\$27,214,000).

Selling and distribution expenses increased by 28.5% for the six months ended 30 June 2021 as compared with corresponding period of last year mainly due to increase in sales volume as compared to the first half of year 2020. Such increase was lower than revenue growth in the same period because of an increased proportion of revenue from bulk pharmaceuticals which had a lower level of selling expenses as compared to finished medicines.

General and administrative expenses

For the six months ended 30 June 2021, general and administrative expenses was approximately HK\$153,520,000 (30 June 2020: HK\$137,657,000) which mainly comprised of salaries expenses for administrative staff of approximately HK\$80,999,000 (30 June 2020: HK\$65,203,000) (including a one-off non-cash expense arising from grant of share options to administrative management staff of approximately HK\$28,161,000 (30 June 2020: nil)) as well as depreciation and amortisation (other than research and development) expenses of approximately HK\$42,131,000 (30 June 2020: HK\$57,175,000).

The increase of 11.5% in general and administrative expense as compared to that of the corresponding period last year was mainly caused by the one-off expense from grant of share options during the six months ended 30 June 2021 whereas there was no grant of share options during the same period of 2020.

Research and development costs

Research and development costs amounted to HK\$134,947,000 (30 June 2020: HK\$49,629,000), which increased significantly by 171.9% for the six months ended 30 June 2021 as compared with corresponding period of 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. Furthermore, a one-off non-cash expense arising from grant of share options to R&D management staff during the first half of year 2021 of approximately HK\$36,878,000 (30 June 2020: nil) has resulted in the increase in research and development costs.

Profit from operations

For the six months ended 30 June 2021, the Group's profit from operations amounted to HK\$359,540,000, representing an increase of 16.9% as compared to HK\$307,441,000 of the corresponding period last year, with the operating profit margin (defined as profit from operations divided by total revenue) decreased to 14.7% from 17.2% of the corresponding period last year mainly due to a higher level of cost of sales and expenses related to grant of share options during the six months ended 30 June 2021.

Finance costs — net

The Group's net finance costs, which represented mainly interest expenses of bank borrowings and foreign exchange loss less interest income on bank deposits, increased by 27.6% to HK\$20,564,000 for the six months ended 30 June 2021 (30 June 2020: HK\$16,112,000) mainly due to a net foreign exchange loss as compared to a net foreign exchange gain in the corresponding period last year.

Income tax

The Group believes that Shijiazhuang No. 4 Pharma, Jiangsu Best, Hebei Guangxiang Pharmaceutical Co., Ltd., Hebei Guolong Pharmaceutical Co., Ltd. and Hebei Hanlin Biotechnology Co., Ltd. were qualified as the High and New Technology Enterprise and thus subject to a 15% preferential income tax in the PRC for both 2021 and 2020. For the six months ended 30 June 2021, the income tax expense increased by 39.7% to HK\$60,945,000 (30 June 2020: HK\$43,629,000) mainly due to a higher profit before taxation of the Group.

Profit attributable to equity shareholders

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2021 increased by 11.6% to HK\$275,661,000 (30 June 2020: HK\$247,035,000), with net profit margin (defined as profit attributable to equity shareholders of the Company divided by total revenue) decreased to 11.3% from 13.9% of the corresponding period last year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 30 June 2021, the Group's cash and cash equivalents decreased to HK\$1,302,061,000 (31 December 2020: HK\$1,445,905,000), mostly denominated in Renminbi ("RMB").

As at 30 June 2021, the Group's bank borrowings amounted to HK\$2,470,883,000 (31 December 2020: HK\$2,427,072,000), comprising HK\$1,192,341,000 (31 December 2020: HK\$1,082,411,000) of borrowings denominated in RMB and HK\$1,278,542,000 (31 December 2020: HK\$1,344,661,000) in Hong Kong dollars. As at 30 June 2021, 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 14.9% as at 31 December 2020 to 16.7% as at 30 June 2021. Current ratio (defined as current assets divided by current liabilities) further improved from 2.01 as at 31 December 2020 to 2.23 as at 30 June 2021.

As at 30 June 2021, the Group's total capital commitments outstanding but not provided for was HK\$467,246,000 (31 December 2020: HK\$477,237,000).

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

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group had approximately 4,700 employees (approximately 4,700 employees as at 30 June 2020), most of whom were based in the PRC. The number of workers employed by the Group varies from time to time depending on its needs. 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 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 the six months ended 30 June 2021 was approximately HK\$336,597,000 (30 June 2020: HK\$196,092,000) including a one-off non-cash expense of HK\$67,050,000 (30 June 2020: nil) arising from grant of share options to management staff of the Group.

CHARGE ON ASSETS

As at 30 June 2021, the Group's right-of-use assets of HK\$54,382,000 (31 December 2020: HK\$54,347,000) were pledged as collateral for the Group's bank borrowings.

FOREIGN EXCHANGE RISK

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

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

1 January 2020	0.89578
30 June 2020	0.91344
1 January 2021	0.84164
30 June 2021	0.83208

MATERIAL ACQUISITIONS AND DISPOSALS

There was no material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2021.

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any significant contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save for the purchase of 17,626,000 shares which details are set out in the next paragraph, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the six months ended 30 June 2021.

During the six months ended 30 June 2021, the Company acquired an aggregate of 17,626,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) at an aggregate consideration of HK\$77,390,000 which details are set out below. As at 30 June 2021, all of the 17,626,000 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\$)
13 January 2021	1,972,000	4.12	4.03	8,056,000
14 January 2021	2,710,000	4.26	4.03	11,365,000
15 January 2021	1,450,000	4.34	4.30	6,291,000
18 January 2021	3,510,000	4.37	4.26	15,338,000
19 January 2021	486,000	4.44	4.41	2,163,000
20 January 2021	2,166,000	4.51	4.50	9,794,000
22 January 2021	1,236,000	4.68	4.62	5,770,000
25 January 2021	2,616,000	4.70	4.33	11,665,000
26 January 2021	508,000	4.29	4.28	2,183,000
10 May 2021	350,000	4.78	4.78	1,679,000
11 May 2021	222,000	4.85	4.85	1,081,000
13 May 2021	400,000	5.00	4.99	2,005,000
	<u>17,626,000</u>			<u>77,390,000</u>

SHARE OPTION SCHEME

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

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

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

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

On 19 October 2015, the Company granted a total of 122,000,000 share options to two executive directors of the Company and other management staff of the Group under Share Option Scheme, representing about 4.33% of the issued share capital as at the date immediately before share options were granted. The exercise price was HK\$1.98. The exercisable period was from 19 October 2015 to 18 October 2018. All of the share options have been exercised.

On 15 April 2016, the Company granted 122,000,000 share options to Mr. Qu Jiguang, the Chairman and the CEO of the Company, under Share Option Scheme, representing about 4.31% of the issued share capital as at the date immediately before share options were granted. The exercise price was HK\$2.58. The exercisable period was from 15 April 2016 to 14 April 2021. Such grant of share options was approved by the independent shareholders at the annual general meeting held on 27 May 2016. During the year ended 31 December 2020, 32,000,000 share options were exercised by Mr. Qu Jiguang and, as a result, 32,000,000 ordinary shares of the Company was issued. All of the share options granted on 15 April 2016 have been exercised.

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

On 12 January 2021, the Company granted 100,000,000 share options to certain management staff of the Group who are not the Directors of the Company under Share Option Scheme, representing approximately 3.285% of the issued share capital as at the date immediately before share options were granted. The exercise price was HK\$4.218. The exercisable period was from 12 January 2021 to 11 January 2026. During the period of six months ended 30 June 2021 and up to date of this interim announcement, all of the 100,000,000 share options remain outstanding and exercisable.

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

	Six months ended 30 June 2021	Year ended 31 December 2020
Outstanding at the beginning of the period/year	—	32,000,000
Granted during the period/year	100,000,000	—
Exercised during the period/year	—	(32,000,000)
Lapsed during the period/year	—	—
	<hr/>	<hr/>
Outstanding and exercisable at the end of the period/year	<u>100,000,000</u>	<u>—</u>

The details of share options movements during the six months ended 30 June 2021 are shown as follows:

Employees (not directors of the Company)

Date of grant	Exercise price per share	Exercisable period	Number of share options			
			Outstanding at 1 Jan 2021	Granted during the period	Exercised during the period	Outstanding at 30 Jun 2021
12 Jan 2021	HK\$4.218	12 Jan 2021 — 11 Jan 2026	—	100,000,000	—	100,000,000

As at 30 June 2021, the share options granted under Share Option Scheme and remained outstanding had an weighted average exercise price of HK\$4.218 and a remaining contractual life of approximately 4.53 years. Assuming that all share options outstanding as at 30 June 2021 are exercised, the Company will receive proceeds of HK\$421,800,000.

RESTRICTED SHARE AWARD SCHEME

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

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

Since the adoption of the Restricted Share Award Scheme and as at 30 June 2021, no share has been purchased by the trustee and no share has been awarded to any Selected Participants pursuant to the Restricted Share Award Scheme.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the latest practicable date, being 27 August 2021, and at all times during the six months ended 30 June 2021.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”). Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code during the six months ended 30 June 2021.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). During the six months ended 30 June 2021, the Company has complied with all applicable provisions of CG Code except code provisions A.2.1 as set out below.

Code provision A.2.1 of the CG Code 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.

INDEPENDENT REVIEW OF AUDITORS

The interim financial report for the six months ended 30 June 2021 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*” issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed and approved the interim financial information of the Group for the six months ended 30 June 2021 as contained in this interim announcement.

INTERIM DIVIDEND

The Directors resolved to pay on 24 September 2021 an interim dividend of HK5 cents per share (30 June 2020: HK5 cents per share) amounting to a total of approximately HK\$151,305,000 for the six months ended 30 June 2021 to the shareholders named in the register of members of the Company on 13 September 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 14 September 2021 to Friday, 17 September 2021 (both days inclusive), during which period, no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Monday, 13 September 2021.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim 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 interim report containing all the information required by the Listing Rules will be available on the above websites and will be despatched to the shareholders in due course.

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

On behalf of the Board

Qu Jiguang

Chairman

Hong Kong, 27 August 2021

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