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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020**

### **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 2020.

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

Year 2020 was the most challenging year for the Group's operation in many years. Affected by the outbreak of novel coronavirus epidemic domestically and internationally, the social order and economic activities were entirely disrupted. The Group's operation and sales were severely impacted, and the rapid growth trend which had continued for years was terminated with a considerable drop in revenue and profit. However, as the epidemic came under control domestically, the Group's operation recovered rapidly in the second half of the year and gradually reached the rapid development trend before the epidemic.

During the year, the Group achieved a revenue of HK\$4,261 million (or approximately Renminbi ("RMB") 3,787 million), representing a decrease of 8.1% (or approximately 7.2% in RMB), and the gross profit margin was 63.6%, representing an increase of 1.5 percentage point compared to last year. The net profit was HK\$612 million (or approximately RMB544 million), representing a decrease of 46.1% (or approximately 45.6% in RMB) compared to last year.

We believe that the most difficult time has passed. Through faster adjustment of product mix together with expanding and enhancing the portfolio of high-growth products, the Group has formed a comprehensive layout of diversified development on intravenous infusion solution, ampoule injections, bulk pharmaceuticals and oral preparations, which can ensure the consistently high growth of the Company.

At present, the Company has sufficient operating cash flow. The Board resolved to pay a final dividend of HK\$0.05 per share on 8 June 2021 to the shareholders named in the register of members of the Company on 26 May 2021, which represented a decrease of approximately 17% compared to last year. The full-year dividend to be distributed is HK\$0.10 per share, representing a decrease of approximately 9% compared to last year.

## II. BUSINESS REVIEW

### Revenue

For the year ended 31 December 2020, revenue of the Group amounted to approximately HK\$4,260,898,000, representing a decrease of 8.1% as compared to HK\$4,635,675,000 in last year. A breakdown of revenue of the Group for the year ended 31 December 2020 is set out as follows:

	2020		2019		Increase/ (Decrease) %
	Sales <i>HK\$'000</i>	Percentage of sales %	Sales <i>HK\$'000</i>	Percentage of sales %	
Intravenous infusion solution and others	<b>4,141,579</b>	<b>97.2</b>	4,474,109	96.5	(7.4)
(Including: Non-PVC soft bag & upright soft bag infusion solution	<b>1,696,131</b>	<b>39.8</b>	2,573,437	55.5	(34.1)
PP plastic bottle infusion solution	<b>696,861</b>	<b>16.4</b>	861,261	18.6	(19.1)
Glass bottle infusion solution	<b>244,003</b>	<b>5.7</b>	442,121	9.6	(44.8)
Ampoule injection	<b>971,508</b>	<b>22.8</b>	391,600	8.4	148.1
Others)	<b>533,076</b>	<b>12.5</b>	205,690	4.4	159.2
Medical materials	<u>119,319</u>	<u>2.8</u>	<u>161,566</u>	<u>3.5</u>	<u>(26.1)</u>
Total	<u><b>4,260,898</b></u>	<u><b>100</b></u>	<u><b>4,635,675</b></u>	<u><b>100</b></u>	<u><b>(8.1)</b></u>

## (1) Sales of Products

During 2020, the operational activities of various size of hospitals and various types of clinics in the PRC were severely disrupted by the epidemic and thus the number of patients substantially decreased. The sales volume of intravenous infusion solutions, being the major products of the Group, dropped considerably. During the year, the sales volume of intravenous infusion solutions was approximately 1,190 million bottles/bags, representing a decrease of approximately 23% compared to the last year. On the other hand, due to the implementation of national centralised procurement, sales volume and sales price of key product Moxifloxacin Hydrochloride & Sodium Chloride Injection dropped significantly. Being one of the factors for the decrease of revenue of intravenous infusion solutions during the year, the Company was fully committed in dealing with the remaining problems. Facing significant pressure from the market, the Group responded actively by extending sales & marketing and supply services through “cloud services” and other means, further securing and stabilizing its market, strengthening sales of therapeutic intravenous infusion solution products and increasing its effort in promoting the sales of new products in different provinces, and laid a solid market foundation for the rapid recovery of the Company’s intravenous infusion solution business after the epidemic.

During the year, the Group took effective measures to actively adjust its product mix and facilitate the rapid growth of businesses in ampoule, bulk pharmaceuticals and oral preparations, so as to further achieve the diversification of the Company’s business.

The broader variety of ampoule products resulted in the continuous rapid growth in sales. Small-volume injection products of the Group such as Betahistine Hydrochloride & Sodium Chloride Injection, Ambroxol Hydrochloride Injection and Potassium Chloride Injection achieved significant sales growth, maintaining and strengthening the operational advantage. During the year, sales of ampoule products amounted to RMB863 million, representing a growth of 1.5 times compared to last year. During the year, with a combined market demand, a new production line designated for 10ml PP ampoule injections was built to further expand production capacity of specialised ampoule products.

In respect of bulk pharmaceuticals business, due to the epidemic in year 2020, customer certification was slow and exports of products was below expectation. However, through continuous optimization and enhancement of production processes, preliminary production cost advantage has revealed, product mix became increasingly rich and foundation of utilising production capacity became ready. A new landscape is gradually formed with major bulk pharmaceuticals including Moxifloxacin Hydrochloride, Hydroxyethyl starch

130 and 40, Azithromycin, Caffeine, Theophylline, Aminophylline and Metronidazole as foundation, and promising new products including Dexmedetomidine Hydrochloride, Ipratropium Bromide, Lurasidone Hydrochloride, Blonanserin, Cinacalcet Hydrochloride, Linezolid, L-malic acid, Terbutaline Sulfate, Epalrestat, Pentoxifylline, Rosuvastatin Calcium, Pitavastatin Calcium, Argatroban, Lacosamide, Ornidazole, Levornidazole and Doxofylline which are high value-added specialised bulk pharmaceuticals as coordinating development.

Oral preparations business segment achieved preliminary results. Through new products development, market was driven faster and opportunities brought by the national centralised procurement was seized, business development of solid preparations began to take shape. After implementation of centralised procurement in the PRC, new products Cefdinir capsule and Prucalopride Succinate tablet were the first tender won by the Group creating a new path to accelerate the planning of new products, cover the national market and improve the accessibility of drugs. The PRC government has ordered the Group's Abidol Hydrochloride capsule as a broad-spectrum antiviral drug through centralised procurement, which has played a positive role in this fight against the epidemic, and was included in the "Diagnosis and Treatment Program for Novel Coronavirus Infected Pneumonia". It was also listed in the "Guidelines for the Rational Use of Antiviral Drugs in Children with Viral Infectious Respiratory Diseases" and the National Medical Insurance Catalogue 2019. Taking this opportunity of fighting against the epidemic, we have made important breakthroughs in the market development and promotion of Abidol. It was admitted to either Catalogue of Products for Epidemic Prevention and Control or Green Channels for Preventive and Control Drugs in 27 provinces and municipalities, thereby bringing out better social benefits. The revenues of Abidol for the year amounted to RMB93.40 million, representing a significant increase of 13.5 times compared to last year. Widely known to doctors during this outbreak, the product will become one of the main antiviral drugs in the PRC.

Export sales to foreign countries achieved a growth despite the general trend, with increases in export revenue of 40.7% and export revenue of infusion solution of 10.2% during the year as compared to last year. We completed the registration for 49 product specifications overseas, and increased 7 new countries for export including Saudi Arabia, Sri Lanka and Guinea-Bissau.

In respect of medical materials, Jiangsu Best New Medical Material Co., Ltd. brought its own technological advantages into play, greatly enhanced the integrated supporting functions of the downstream production chains in rubber stoppers and infusion films, and continued to increase the production capacity and product coverage. It actively participated in the research and development of its clients' generic drugs and associated approval of consistency evaluation, further revealing the advantage of its product scale.

## (2) Research and Development of New Products

Following along the lines of transformation, upgrade and innovation development, the Group continuously increased its efforts in technological innovation, expedited the research and development of new products as well as the construction progress of an innovative platform integrating production, education, research and application, and gradually forming a set of comprehensive, scientific and articulate technological innovation system and working mechanism. The Group has successively entered into strategic cooperation with China Pharmaceutical University, Shenyang Pharmaceutical University and Hebei Medical University, has entered into cooperation agreement with The Fourth Hospital of Hebei Medical University, Hebei University and Hebei Institute of Drug and Medical Device Testing, and was successfully certified as the Champion of National Demonstration Enterprise as well as the Leading Technology Enterprise of Hebei Province. Hebei Guangxiang Pharmaceutical Co., Ltd. has also been successively approved for innovation platforms including the High and New Technology Enterprise in the PRC, National Postdoctoral Scientific Research Workshop, Hebei Province Micro-reaction Continuous Synthesis Bulk Pharmaceutical Engineering Research Center and Hebei Province Industrial Enterprise Class A Research & Development Entity. The successful establishment of these innovation platforms provided a more solid support and developed a more powerful driver for the Group to build up as a national innovative enterprise.

The Group's pilot-testing and industrialised support project for pharmaceutical research and development platform have been handed over for use in May 2020, which will further reveal the innovative consolidation effect and facilitate the Group's industrial transformation and upgrade.

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 results as expected. Type I innovative drug NP-01, the Group's first innovative drug, has received approval for clinical trial and its clinical testing research have already commenced, demonstrating the Group's transformation from generic drug research and development to a new stage of combination of generic and innovative drugs.

During year 2020, 6 products with 7 specifications, including Prucalopride Succinate tablet (1mg, 2mg), Cefdinir capsule (0.1mg), Rosuvastatin Calcium Tablet (10mg), Doxofylline Injection, Ropivacaine Hydrochloride Injection and Moxifloxacin Hydrochloride & Sodium Chloride Injection, passed the Consistency Evaluation of Quality and Efficacy of Generic Drugs in the PRC or were regarded as passing the consistency evaluation. Among which, Doxofylline Injection and Ropivacaine Hydrochloride Injection were the first one of these products passing the consistency evaluation, while Cefdinir capsule was the second one of such product passing the consistency evaluation. Doxofylline Injection has a new type of packaging in PP ampoule instead of the original glass ampoule for better convenience

and safety, and is expected to become the most competitive product in the anti-asthmatic drug market. Ropivacaine Hydrochloride Injection is a new type of local anesthetic drug being the first one of such product passing through consistency evaluation, such that demand of such drug in the PRC will be well satisfied and replacement of original drugs will be achievable. The approved production of various new solid preparations such as Cefdinir capsule, Prucalopride Succinate tablet and Rosuvastatin Calcium Tablet will push forward the accelerating growth of the Company's oral preparations business segment, and facilitate the consistent improvement and optimisation of the Company's product mix.

Based on the research and development in 2020, five approvals for consistency evaluation of injections have been obtained during the year. Ciprofloxacin Lactate Injection was the first one of such product passing the consistency evaluation in the PRC while Fluconazole and Sodium Chloride Injection and Bromhexine Hydrochloride Injection were the second ones of such products passing the consistency evaluation in the PRC. The 250ml: 0.25g specification and 100ml:0.5g specification of Metronidazole and Sodium Chloride Injection were the first and second one of such specifications passing the consistency evaluation in the PRC respectively.

Through the combination of fundamental and innovative researches, the protection of intellectual property rights is progressively achieved at the same time. As of now, the Group has cumulatively applied for 146 patents and received authorisation of 89 patents, including 48 invention patents and 3 international invention patents.

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

Looking ahead in 2021, domestic and international economy will remain complex and dynamic. Affected by the normality under novel coronavirus epidemic, the pressure arising from external factors may persist and bring new challenges to the Group's operation and sales. Facing numerous uncertainties, the Group will continue to keep its composure, uphold its development focus and do its best in maintaining the momentum in sustainable and stable development of the Group. The Group will promote development by innovation, and improve efficiency by management.

1. We will maintain the leading position of our major products in intravenous infusion solution market. We will strive to achieve recovery growth of intravenous infusion solution segment, with an estimated sales volume of 1,600 million bottles/bags, representing an increase of approximately 34% from 2020. Meanwhile, we will continue to strengthen the sales proportion of therapeutic and specialised intravenous infusion solution products.

2. We will continue to maintain the fast growth of ampoule injection business. While developing the market for Hydrochloride Betahistine injection, the Group will take advantage of the tender won by Doxofylline Injection and Bromhexine Hydrochloride Injection in national centralised procurement and broaden the market size of new products so as to make ampoule business segment one of the principal businesses of the Company soon.
3. We will actively utilise the production capacity of bulk pharmaceuticals, and continue to strengthen fundamental management efforts such as cost reduction, efficiency improvement, technological advancement, safety enhancement and environmental protection. We will improve management ability of our team. With the goal of reducing costs and improving capacity utilisation, we will facilitate the Group's overall scale expansion. In 2021, we will complete the corporate restructuring of the bulk pharmaceuticals business and lay a solid foundation for its listing in the PRC.
4. We will continue to make progress on implementation of innovative drug evaluations and consistency evaluations. We will adhere to the new product development idea of "combination of generic and innovative drugs" with injections development as the basis, reinforcing the Group's technological and product advantages in the intravenous infusion solutions industry of the PRC. At the same time, we will take into consideration of research and development of new types of oral preparation, bulk pharmaceuticals and medical materials, and speed up the formation of advantages in the research and development of drugs for chronic diseases, circulatory systems, emergency anesthesia drugs, antipyretic and analgesic drugs and new anti-infective drugs, as well as medical materials in the PRC. The sustainable development of the Group will be consolidated.

On one hand, the Group has been developing injection products to a series through continuous efforts over time. The Group intends to gradually create a high-end anti-infective product series focusing on Moxifloxacin Hydrochloride & Sodium Chloride Injection, Fluconazole and Sodium Chloride Injection, Ciprofloxacin Lactate Injection and Metronidazole and Sodium Chloride Injection as well as Levornidazole & Sodium Chloride Injection (Type 2.1 in the PRC awaiting approval), Linezolid & Glucose Injection and Cefdinir Capsules, and create a product series in the respiratory field including Bromhexine Hydrochloride Injection, Ambroxol Infusion products, Doxofylline Injection and Terbutaline Sulfate spray for inhalation. The hemodialysis and peritoneal dialysis product series will form the Company's product portfolio in the field of dialysis for kidney disease. In the meantime, the Group concentrated its efforts in the development of drugs with market demand such as new microspheres, liposomal high-end injection, lyophilized powder injection, infusion bag, with two or more chambers and aseptic filling injection, and gradually establishes its leading position in injections in terms of high-end drug administration system and innovative packaging form.

On the other hand, the Group strives 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 conduct 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 in a thorough and diligent manner, so as to apply for clinical trial registration as soon as possible.

Facing the risks and challenges persisting during the post-epidemic era, we are full of confidence on the future development of the Group. Leveraging on the competitive edges on our scale, quality, lean management and branding in the industry, we will firmly grasp development initiatives, keep the tenacity and vitality from innovation development, and push forward high-quality development of the Group. We will deliver more solid development results to bring satisfactory returns 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 2020*

*(Expressed in Hong Kong dollars)*

		2020	2019
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>	3	<b>4,260,898</b>	4,635,675
Cost of sales		<u>(1,552,523)</u>	<u>(1,758,842)</u>
<b>Gross profit</b>		<b>2,708,375</b>	2,876,833
Other income		71,717	157,886
Selling and distribution costs		(1,613,294)	(1,261,406)
General and administrative expenses		(408,240)	(378,929)
Impairment loss on trade, bill and other receivables		<u>324</u>	<u>(2,728)</u>
<b>Profit from operations</b>		<u>758,882</u>	<u>1,391,656</u>
Finance income		17,805	24,755
Finance costs		<u>(51,472)</u>	<u>(55,268)</u>
Finance costs — net	4(a)	<u>(33,667)</u>	<u>(30,513)</u>
<b>Profit before taxation</b>	4	<b>725,215</b>	1,361,143
Income tax	5	<u>(114,396)</u>	<u>(223,838)</u>
<b>Profit for the year</b>		<u>610,819</u>	<u>1,137,305</u>
<b>Other comprehensive income for the year, net of nil tax</b>			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency		<u>418,623</u>	<u>(130,803)</u>
<b>Other comprehensive income for the year</b>		<u>418,623</u>	<u>(130,803)</u>
<b>Total comprehensive income for the year</b>		<u><u>1,029,442</u></u>	<u><u>1,006,502</u></u>

	<i>Note</i>	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
<b>Profit attributable to:</b>			
Equity shareholders of the Company		<b>611,971</b>	1,136,101
Non-controlling interests		<b>(1,152)</b>	1,204
<b>Profit for the year</b>		<b><u>610,819</u></b>	<b><u>1,137,305</u></b>
<b>Total comprehensive income attributable to:</b>			
Equity shareholders of the Company		<b>1,014,508</b>	1,009,287
Non-controlling interests		<b>14,934</b>	(2,785)
<b>Total comprehensive income for the year</b>		<b><u>1,029,442</u></b>	<b><u>1,006,502</u></b>
<b>Earnings per share</b>			
— Basic	<i>6(a)</i>	<b><u>HK\$0.2019</u></b>	<u>HK\$0.3755</u>
— Diluted	<i>6(b)</i>	<b><u>HK\$0.2012</u></b>	<u>HK\$0.3725</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2020

(Expressed in Hong Kong dollars)

		<b>31 December</b>	31 December
		<b>2020</b>	2019
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>3,836,141</b>	3,414,398
Right-of-use assets		<b>333,382</b>	263,652
Intangible assets		<b>685,389</b>	545,509
Deferred tax assets		<b>20,863</b>	13,022
Pledged bank deposits and fixed deposits		<b>119,335</b>	122,798
		<u><b>4,995,110</b></u>	<u>4,359,379</u>
<b>Current assets</b>			
Inventories		<b>638,301</b>	506,923
Trade and bills receivables	7	<b>1,813,313</b>	1,803,279
Prepayments, deposits and other receivables		<b>294,709</b>	230,070
Pledged bank deposits and time deposits		<b>66,369</b>	7,262
Cash and cash equivalents		<b>1,445,905</b>	817,429
		<u><b>4,258,597</b></u>	<u>3,364,963</u>
<b>Current liabilities</b>			
Borrowings		<b>1,327,115</b>	816,915
Trade payables	8	<b>240,562</b>	171,798
Contract liabilities		<b>45,929</b>	47,411
Lease liabilities		<b>3,664</b>	2,394
Accruals and other payables		<b>469,591</b>	475,283
Income tax payable		<b>30,883</b>	63,207
		<u><b>2,117,744</b></u>	<u>1,577,008</u>
<b>Net current assets</b>		<u><b>2,140,853</b></u>	<u>1,787,955</u>
<b>Total assets less current liabilities</b>		<u><b>7,135,963</b></u>	<u>6,147,334</u>

	<b>31 December</b>	31 December
	<b>2020</b>	2019
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current liabilities</b>		
Borrowings	1,099,957	878,942
Lease liabilities	4,610	904
Deferred tax liabilities	19,348	24,203
Deferred revenue	96,837	56,137
	<u>1,220,752</u>	<u>960,186</u>
<b>NET ASSETS</b>	<b><u>5,915,211</u></b>	<b><u>5,187,148</u></b>
<b>CAPITAL AND RESERVES</b>		
	9	
Share capital	67,682	67,454
Reserves	5,584,354	4,918,968
<b>Total equity attributable to equity shareholders of the Company</b>	<b>5,652,036</b>	<b>4,986,422</b>
Non-controlling interests	263,175	200,726
<b>TOTAL EQUITY</b>	<b><u>5,915,211</u></b>	<b><u>5,187,148</u></b>

## 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 2020 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 Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

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.

## 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 2020 and 2019 is set out below.

	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>
<b>Disaggregated by timing of revenue recognition</b>				
Point in time	4,140,329	119,049	—	4,259,378
Over time	1,250	270	—	1,520
Revenue from external customers	4,141,579	119,319	—	4,260,898
Inter-segment revenue	17,969	128,362	—	146,331
<b>Reportable segment revenue</b>	<b>4,159,548</b>	<b>247,681</b>	<b>—</b>	<b>4,407,229</b>
<b>Operating profit or loss/segment results</b>	776,663	(174)	(17,607)	758,882
Finance income	17,301	23	481	17,805
Finance costs	(33,479)	(1)	(17,992)	(51,472)
<b>Profit/(loss) before taxation</b>	760,485	(152)	(35,118)	725,215
Income tax	(113,075)	(1,321)	—	(114,396)
<b>Reportable segment profit/(loss) for the year</b>	<b>647,410</b>	<b>(1,473)</b>	<b>(35,118)</b>	<b>610,819</b>
Depreciation and amortisation for the year (Reversal of)/provision for impairment of receivables	293,409 (696)	22,003 372	2,928 —	318,340 (324)
<b>Total assets/reportable segment assets</b>	<b>8,688,670</b>	<b>343,294</b>	<b>221,743</b>	<b>9,253,707</b>
Additions to non-current assets	639,589	18,006	9,853	667,448
<b>Total liabilities/reportable segment liabilities</b>	<b>2,335,141</b>	<b>24,228</b>	<b>979,127</b>	<b>3,338,496</b>

	Intravenous infusion solution and others <i>HK\$'000</i>	Medical materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Disaggregated by timing of revenue recognition</b>				
Point in time	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
<b>Reportable segment revenue</b>	<b>4,495,683</b>	<b>331,495</b>	<b>—</b>	<b>4,827,178</b>
<b>Operating profit or loss/segment results</b>				
Finance income	24,610	81	64	24,755
Finance costs	(32,521)	(453)	(22,294)	(55,268)
<b>Profit/(loss) before taxation</b>	<b>1,394,167</b>	<b>23,013</b>	<b>(56,037)</b>	<b>1,361,143</b>
Income tax	(217,798)	(6,040)	—	(223,838)
<b>Reportable segment profit/(loss) for the year</b>	<b>1,176,369</b>	<b>16,973</b>	<b>(56,037)</b>	<b>1,137,305</b>
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
<b>Total assets/reportable segment assets</b>	<b>7,366,351</b>	<b>350,833</b>	<b>7,158</b>	<b>7,724,342</b>
Additions to non-current assets	929,254	21,364	—	950,618
<b>Total liabilities/reportable segment liabilities</b>	<b>1,989,746</b>	<b>24,004</b>	<b>523,444</b>	<b>2,537,194</b>

### 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:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Disaggregation by major products or service lines		
— Sales of pharmaceutical products	4,135,107	4,462,343
— Sales of medical materials	117,915	158,224
— Services income	1,250	4,709
— Sales of raw materials and by-products	6,356	10,155
	<u>4,260,628</u>	<u>4,635,431</u>
<b>Revenue from other source</b>		
— Rental income	270	244
	<u>4,260,898</u>	<u>4,635,675</u>
Disaggregated by geographical location of customers		
— The PRC (place of domicile)	4,043,733	4,481,341
— Other countries	217,165	154,334
	<u>4,260,898</u>	<u>4,635,675</u>

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

The geographical analysis on revenue above includes rental income from external customers in the PRC for the year ended 31 December 2020 of HK\$270,000 (2019: HK\$244,000). 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 2020, 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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Finance income:		
— Interest income on bank deposits	(22,977)	(23,367)
— Net foreign exchange loss/(gain)	<u>5,172</u>	<u>(1,388)</u>
<b>Finance income</b>	<b><u>(17,805)</u></b>	<b><u>(24,755)</u></b>
Finance costs:		
— Interest expense of borrowings	64,545	68,852
— Interest on lease liabilities	<u>313</u>	<u>238</u>
	64,858	69,090
Less: Interest expense capitalised into qualifying assets*	<u>(13,386)</u>	<u>(13,822)</u>
<b>Finance costs</b>	<b><u>51,472</u></b>	<b><u>55,268</u></b>
<b>Finance costs — net</b>	<b><u>33,667</u></b>	<b><u>30,513</u></b>

\* During the year ended 31 December 2020, the borrowing costs have been capitalised at a rate of 4.05% per annum (2019: 4.90%).

##### (b) Staff costs

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Contributions to defined contribution retirement plan	29,003	41,702
Salaries, wages and other benefits	<u>440,420</u>	<u>434,445</u>
	<b><u>469,423</u></b>	<b><u>476,147</u></b>

(c) *Other items*

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Research and development costs (other than staff costs, depreciation and amortisation expenses)	176,174	140,490
<i>Less: Costs capitalised into intangible assets</i>	<u>(100,492)</u>	<u>(65,139)</u>
	<u><b>75,682</b></u>	<u><b>75,351</b></u>
Amortisation <sup>#</sup>		
— intangible assets	16,927	15,814
<i>Less: Amount capitalised as development costs</i>	<u>(984)</u>	<u>(994)</u>
	<u><b>15,943</b></u>	<u><b>14,820</b></u>
Depreciation charges <sup>#</sup>		
— owned property, plant and equipment	290,637	251,956
— right-of-use assets	10,776	9,572
(Reversal of)/provision for impairment losses		
— trade and bills receivables	(332)	2,725
— other receivables	8	3
Write-off of internally generated research and development costs	—	8,943
Auditors' remuneration — audit services	2,500	2,500
Cost of inventories <sup>#</sup>	1,548,862	1,721,736
Other expenses		
— transportation expenses	363,129	434,694
— utility expenses	230,379	130,348
— advertising expenses	202,027	203,785
— marketing and promotion expenses	933,395	499,887
— travelling, meeting and entertainment expenses	41,684	62,646
— surcharges and other tax expenses	55,421	63,525

<sup>#</sup> Cost of inventories includes HK\$446,117,000 (2019: HK\$444,883,000) 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:*

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax – the PRC Corporate Income Tax (“CIT”)	127,160	221,235
Deferred tax – origination and reversal of temporary differences	<u>(12,764)</u>	<u>2,603</u>
	<u><b>114,396</b></u>	<u><b>223,838</b></u>

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

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2020 and 2019 as the Group did not have any profits assessable to Hong Kong Profits Tax during the current and prior years.

Shijiazhuang No. 4 Pharmaceutical Co., Ltd. (“Shijiazhuang No.4”), Jiangsu Best New Medical Material Co., Ltd. (“Jiangsu Best”), Hebei Guangxiang Pharmaceutical Co., Ltd. (“Hebei Guangxiang”), 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 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:*

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit before taxation	<u>725,215</u>	<u>1,361,143</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	183,846	347,727
Effect of the PRC preferential tax rate	(74,617)	(139,891)
Effect of non-deductible expenses	8,621	10,037
Additional deduction of research and development expenditures	(13,004)	(8,936)
Withholding tax on profit distributions	8,449	16,003
Others	<u>1,101</u>	<u>(1,102)</u>
Actual tax expense	<u>114,396</u>	<u>223,838</u>

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\$611,971,000 (2019: HK\$1,136,101,000) and the weighted average of 3,030,997,000 ordinary shares (2019: 3,025,730,000 ordinary shares) in issue during the year, calculated as follows:

*Weighted average number of ordinary shares*

	2020 <i>'000</i>	2019 <i>'000</i>
Issued ordinary shares at 1 January	3,032,325	3,014,025
Effect of purchase and cancellation of own shares	(6,879)	(131)
Effect of share options exercised	<u>5,551</u>	<u>11,836</u>
Weighted average number of ordinary shares at 31 December	<u>3,030,997</u>	<u>3,025,730</u>

**(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\$611,971,000 (2019: HK\$1,136,101,000) and the weighted average of 3,041,974,000 ordinary shares (2019: 3,050,338,000 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)*

	<b>2020</b>	2019
	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares at 31 December (basic)	<b>3,030,997</b>	3,025,730
Effect of deemed issue of shares under the Company's share option scheme	<b>10,977</b>	24,608
	<u>3,041,974</u>	<u>3,050,338</u>

**7. Trade and bills receivables**

	<b>2020</b>	2019
	<b>HK\$'000</b>	<b>HK\$'000</b>
Trade receivables	<b>1,628,535</b>	1,681,143
Bills receivable	<b>193,407</b>	130,573
	<u>1,821,942</u>	<u>1,811,716</u>
<i>Less: Loss allowance</i>	<b>(8,629)</b>	(8,437)
	<u><b>1,813,313</b></u>	<u>1,803,279</u>

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

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

As at 31 December 2020, the Group endorsed certain bank acceptance bills to suppliers for settling payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations, should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of these bills are of good credit quality and non-settlement of these bills by the issuing banks on maturity is not probable. Bills receivable were therefore derecognised.

As at 31 December 2020, 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\$480 million (31 December 2019: HK\$573 million).

### *Ageing analysis*

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

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 3 months	1,241,113	1,244,219
4 to 6 months	332,059	385,524
7 to 12 months	226,460	179,291
1 to 2 years	<u>22,310</u>	<u>2,682</u>
	<b><u>1,821,942</u></b>	<b><u>1,811,716</u></b>

### **8. Trade payables**

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 3 months	207,145	147,966
4 to 6 months	20,391	17,062
7 to 12 months	9,528	5,718
1 to 3 years	2,788	295
More than 3 years	<u>710</u>	<u>757</u>
	<b><u>240,562</u></b>	<b><u>171,798</u></b>

## 9. Dividends and share capital

### (a) Dividends

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

	2020 HK\$'000	2019 HK\$'000
Interim dividend declared and paid of HK5.0 cents per ordinary share (2019: HK5.0 cents per ordinary share)	151,023	151,701
Final dividend proposed after the end of the reporting period of HK5.0 cents per ordinary share (2019: HK6.0 cents per ordinary share)	<u>151,354</u>	<u>181,837</u>
	<u><u>302,377</u></u>	<u><u>333,538</u></u>

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

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

	2020 HK\$'000	2019 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK6.0 cents per share (2019: HK5.0 cents per share)	<u>181,837</u>	<u>150,701</u>

### (b) Share capital

(i) Issued share capital

	2020		2019	
	No. of shares ( '000)	HK\$'000	No. of shares ( '000)	HK\$'000
<b>Ordinary shares of HK\$0.02 each, issued and fully paid:</b>				
At 1 January	3,032,325	67,454	3,014,025	67,088
Purchase and cancellation of own shares	(20,598)	(412)	(1,700)	(34)
Shares issued under share option scheme	<u>32,000</u>	<u>640</u>	<u>20,000</u>	<u>400</u>
	<u><u>3,043,727</u></u>	<u><u>67,682</u></u>	<u><u>3,032,325</u></u>	<u><u>67,454</u></u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

SSY Group Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in the research, development, manufacturing and selling of a wide range of pharmaceutical products, which includes finished medicines of mainly intravenous infusion solution 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 2020, the review on the Group’s business performance and financial performance are contained in the Chairman’s statement under section headed “BUSINESS REVIEW” and in this Management Discussion and Analysis under section headed “FINANCIAL PERFORMANCE REVIEW” respectively. The future development in the Group’s business is discussed in the Chairman’s statement under section headed “PROSPECT FOR DEVELOPMENT”.

### **FINANCIAL PERFORMANCE REVIEW**

#### **Revenue**

The Group’s intravenous infusion solution products 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. Starting from early 2020, there has been a significant reduction of human traffics in hospitals in the PRC, which are major customers of the Group, due to the COVID-19 epidemic. In terms of Hong Kong dollars (“HK\$”), revenue of the Group for the year ended 31 December 2020 decreased by 8.1% to HK\$4,260,898,000 (2019: HK\$4,635,675,000) on a year-to-year basis. Among which, revenue from intravenous infusion solution accounted for HK\$2,636,995,000 (2019: HK\$3,876,819,000), representing a decrease of 32.0% on a year-to-year basis. Among which, revenue from Non-PVC Soft Bag and Upright Soft Bag infusion solution were HK\$1,283,277,000 and HK\$412,854,000 respectively, totalling HK\$1,696,131,000, representing 64.3% of the total revenue from intravenous infusion solution and a decrease of 34.1% as compared with last year; revenue from PP Plastic Bottle infusion solution was HK\$696,861,000, representing 26.4% of the total revenue from intravenous infusion solution and a decrease of 19.1% as compared with last year; revenue from Glass Bottle infusion solution was HK\$244,003,000, representing 9.3% of the total revenue from intravenous infusion solution and a decrease of 44.8% as compared with last year.

On the other hand, the Group has put a lot of effort in promoting in particular high-end ampoule injections products in view of its high growth potential. As a result, revenue from ampoule injections accounted for HK\$971,508,000 (2019: HK\$391,600,000), representing a significant growth of 148.1% on a year-to-year basis. Revenue from other products and services accounted for HK\$533,076,000 (2019: HK\$205,690,000), representing an increase of 159.2% on a year-to-year basis mainly due to significant increases in sales of bulk pharmaceuticals and Abidol Hydrochloride capsule (the Group's antiviral drug).

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 products to drive revenue growth.

Revenue from medical materials products contributed HK\$119,819,000 (2019: HK\$161,566,000) to the Group, representing a decrease of 26.1% as compared with last year due to a more challenging pharmaceutical industry environment in the PRC during the year 2020.

### **Cost of Sales**

During the year ended 31 December 2020, the Group has adopted various cost control measures such as production process optimization, equipment modification and energy conservation in mitigating the impact of the COVID-19 epidemic. The Group's cost of sales decreased by 11.7% to HK\$1,552,523,000 for the year ended 31 December 2020 as compared to last year of HK\$1,758,842,000. The cost of direct materials, direct labour and other costs represented approximately 54.9%, 16.5% and 28.6% of the total cost of sales respectively for the year ended 31 December 2020 while their comparative percentages for 2019 were 64.0%, 14.3% and 21.7% respectively.

### **Gross Profit Margin**

For the year ended 31 December 2020, the Group recorded a total gross profit of HK\$2,708,375,000 (2019: HK\$2,876,833,000). Overall gross profit margin slightly increased by 1.5 percentage point to 63.6% from that of last year 62.1%. It was mainly an overall result of more high-margin therapeutic products in infusion solutions and ampoule injections offset by an increased sales of bulk pharmaceuticals with a lower margin as compared to finished drugs.

### **Other Income**

For the year ended 31 December 2020, the Group's other income amounted to HK\$71,717,000 (2019: HK\$157,886,000). The drop in other income was mainly due to a one-off gain resulted from disposal of assets held for sale of HK\$131,456,000 in the year of 2019. For the year of 2020, other income was mainly income from government grants of HK\$62,600,000 (2019: HK\$17,041,000).

## **Selling and Distribution Costs**

For the year ended 31 December 2020, selling and distribution costs amounted to approximately HK\$1,613,294,000 (2019: HK\$1,261,406,000), which mainly consisted of advertising, marketing and promotion expenses of HK\$1,131,496,000 (2019: HK\$679,881,000), transportation cost of approximately HK\$360,235,000 (2019: HK\$430,395,000), as well as staff expenses for sales and marketing staff of approximately HK\$63,853,000 (2019: HK\$66,326,000).

Selling and distribution expenses increased by 27.9% for the year ended 31 December 2020 as compared with last year. Despite the drop in sales due to COVID-19 epidemic, the Group has been actively promoting new products during the year of 2020 and the results were reflected in sales growth of ampoule injections and larger variety of therapeutic infusion solution products. The Group believes that a broader market and product coverage is beneficial to its long-term business development.

## **General and Administrative Expenses**

For the year ended 31 December 2020, general and administrative expenses was approximately HK\$408,240,000 (2019: HK\$378,929,000) which mainly comprised staff expenses for administrative staff of approximately HK\$149,693,000 (2019: HK\$158,108,000), depreciation and amortisation expenses of approximately HK\$127,367,000 (2019: HK\$83,441,000) as well as research and development costs (other than staff costs, depreciation and amortisation expenses and less cost capitalised) of approximately HK\$75,682,000 (2019: HK\$75,351,000).

The increase of 7.7% in general and administrative expenses in year 2020 as compared to that of year 2019 was mainly caused by higher depreciation and amortisation expense after the start of bulk pharmaceuticals business under Hebei Guangxiang Pharmaceutical Co., Ltd. (“Hebei Guangxiang”).

## **Profit from Operations**

For the year ended 31 December 2020, the Group’s profit from operations amounted to HK\$758,882,000, representing a decrease of 45.5% as compared to HK\$1,391,656,000 in year 2019. The operating profit margin (defined as operating profit divided by total revenue) decreased to 17.8% as compared to 30.0% in year 2019 due to a higher level of expenses during year 2020 as compared to year 2019.

## **Finance Costs**

The Group’s finance costs in 2020 decreased by 6.9% to HK\$51,472,000 (2019: HK\$55,268,000), which represented mainly interest expenses of bank borrowings. For the year ended 31 December 2020, the drop in interest expenses was mainly due to a lower average interest rate as compared to year 2019.

## **Income Tax Expense**

The Group believes that Shijiazhuang No. 4 Pharma, Jiangsu Best, Hebei Guangxiang, Hebei Guolong Pharmaceutical Co., Ltd. and Hebei Hanlin Biotechnology Co., Ltd. have been certified as High and New Technology Enterprises and thus subject to a reduced corporate income tax of 15% in the PRC for year 2020. For the year ended 31 December 2020, the income tax expense of the Group decreased by 48.9% to HK\$114,396,000 (2019: HK\$223,838,000) mainly due to a lower profit before taxation of the Group.

## **Profit Attributable to Equity Shareholders**

For the year ended 31 December 2020, profit attributable to equity shareholders of the Company decreased by 46.1% to HK\$611,971,000 (2019: HK\$1,136,101,000). The net profit margin (defined as profit attributable to equity shareholders of the Company divided by total revenue) decreased from 24.5% last year to 14.4% 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 2020, the cash and cash equivalents aggregated to HK\$1,445,905,000 (2019: HK\$817,429,000), mostly were denominated in Renminbi (“RMB”).

As at 31 December 2020, the Group’s bank borrowings amounted to HK\$2,427,072,000 (2019: HK\$1,695,857,000), comprising HK\$1,082,411,000 (2019: HK\$717,810,000) of borrowings denominated in RMB and HK\$1,344,661,000 (2019: HK\$978,047,000) in Hong Kong dollars. As at 31 December 2020, all of the Group’s bank borrowings were repayable within 5 years, mostly bearing interest at variable rates.

Gearing ratio (defined as bank borrowings and lease liabilities less cash and cash equivalents divided by total capital less non-controlling interests) slightly decreased from 15.0% as at 31 December 2019 to 14.9% as at 31 December 2020. Current ratio (defined as current assets divided by current liabilities) slightly dropped to 2.01 as at 31 December 2020 (2.13 as at 31 December 2019).

As at 31 December 2020, the Group’s total capital commitments outstanding but not provided for was HK\$477,237,000 (31 December 2019: HK\$538,249,000).

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, capital commitments and the COVID-19 epidemic's impact on the Group.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 31 December 2020, the Group had approximately 4,700 employees (2019: 4,800 employees), most of whom were based in the PRC. The remuneration policy of employees other than executive Directors and senior management is based on industry practice and is periodically reviewed by executive Directors or senior management. Apart from social insurance and in-house training programmes, other kinds of remuneration such as discretionary bonuses, share options under the 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. Please refer details of the Share Option Scheme and the Restricted Share Award Scheme to the relevant sections in the Corporate Governance Report.

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 2020 was approximately HK\$469,423,000 (2019: HK\$476,147,000).

## **CHARGE ON ASSETS**

As at 31 December 2020, the Group's right-of-use assets of HK\$54,347,000 (2019: HK\$52,156,000) were pledged as collateral for the Group's certain bank borrowings.

## **FOREIGN EXCHANGE RISK**

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

As at the dates below, the exchange rates of converting HK\$ into RMB (as calculated in HK\$) were:

1 January 2019	0.87620
31 December 2019	0.89578
31 December 2020	0.84164

## **MATERIAL ACQUISITIONS AND DISPOSALS**

There was no material acquisition or disposal of subsidiaries or associates for the year ended 31 December 2020.

## **CONTINGENT LIABILITIES**

As at 31 December 2020, the Group did not have any significant contingent liabilities.

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

The Board considers that purchase of its shares by the Company under suitable market condition and funding arrangement will enhance net asset value and/or earnings per share of the Company, and thus will benefit the Company and the shareholders as a whole. Save for the purchase of 20,598,000 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 2020.

During the year ended 31 December 2020, the Company acquired an aggregate of 20,598,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of HK\$98,862,000 which details are set out below. As at 31 December 2020, all of the 20,598,000 shares have been cancelled.

<b>Date of the purchases</b>	<b>Total number of the ordinary shares purchased</b>	<b>Highest price paid per share (HK\$)</b>	<b>Lowest price paid per share (HK\$)</b>	<b>Aggregate consideration (HK\$)</b>
1 April 2020	1,000,000	5.94	5.67	5,811,000
15 April 2020	702,000	5.97	5.92	4,185,000
29 June 2020	828,000	5.00	4.97	4,154,000
16 July 2020	1,182,000	5.00	4.79	5,844,000
17 July 2020	1,022,000	4.89	4.77	4,980,000
20 July 2020	1,036,000	4.87	4.77	5,016,000
24 July 2020	1,960,000	5.10	5.02	9,979,000
26 August 2020	8,000	4.25	4.21	34,000
27 August 2020	2,000,000	4.39	4.39	8,812,000
2 September 2020	1,342,000	5.00	4.95	6,726,000
3 September 2020	800,000	4.90	4.82	3,901,000
14 September 2020	500,000	4.65	4.62	2,326,000
16 September 2020	1,146,000	4.70	4.67	5,390,000
18 September 2020	600,000	4.65	4.65	2,800,000
2 November 2020	1,108,000	4.25	4.19	4,717,000
3 November 2020	338,000	4.29	4.27	1,451,000
4 November 2020	500,000	4.37	4.37	2,193,000
9 November 2020	1,250,000	4.42	4.39	5,529,000
11 November 2020	500,000	4.40	4.38	2,205,000
12 November 2020	600,000	4.30	4.29	2,587,000
20 November 2020	1,000,000	4.73	4.68	4,730,000
30 November 2020	498,000	4.70	4.67	2,344,000
10 December 2020	678,000	4.65	4.59	3,148,000
	<u>20,598,000</u>			<u>98,862,000</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 Share Option Scheme and any other schemes as from the commencement of the Scheme Period must not, in aggregate, exceed 10% of the shares in issue as at 20 September 2012 (the “Scheme Mandate Limit”). The Scheme Mandate Limit may be refreshed at any time by obtaining approval of the shareholders in general meeting provided that the new limit under the refreshed Scheme Mandate Limit must not exceed 10% of the issued share capital of the Company at the date of the shareholders’ approval. The maximum number of shares issued and to be issued upon exercise of the options granted under Share Option Scheme and any other schemes to any of the Eligible Person (including cancelled, exercised and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of issued share capital of the Company unless shareholders’ approval is obtained under the terms of Share Option Scheme.

On 19 October 2015, the Company granted a total of 122,000,000 share options to two executive directors of the Company and other management staff of the Group under Share Option Scheme, representing about 4.33% of the issued share capital as at the date immediately before share options were granted. The exercise price was HK\$1.98. The exercisable period was from 19 October 2015 to 18 October 2018. All of the share options granted on 19 October 2015 have been exercised 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 2020, a total of 32,000,000 (2019: 20,000,000) share options were exercised by Mr. Qu Jiguang and, as a result, a total of 32,000,000 (2019:20,000,000) ordinary shares of the Company was issued. As at 31 December 2020, 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.

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

	2020	2019
Outstanding at the beginning of the year	<b>32,000,000</b>	52,000,000
Granted during the year	—	—
Exercised during the year	<b>(32,000,000)</b>	(20,000,000)
Lapsed during the year	—	—
	<u>—</u>	<u>—</u>
Outstanding and exercisable at the end of the year	<u>—</u>	<u>32,000,000</u>

The details of share options movements during the year ended 31 December 2020 are shown as follows:

Name of Director	Date of grant	Exercise price per share	Exercisable period	Number of share options			
				Outstanding at 1 Jan 2020	Granted during the year	Exercised during the year	Outstanding at 31 Dec 2020
Mr. Qu Jiguang	15 Apr 2016	HK\$2.58	15 Apr 2016 — 14 Apr 2021	32,000,000	—	(32,000,000)	—

## 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 31 December 2020, 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 30 March 2021, and at all times during the year ended 31 December 2020.

## **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 2020.

## **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 2020, the Company has complied with all applicable code provisions of CG Code except the followings:

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.

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 22 May 2020, Mr. Feng Hao, the non-executive director of the Company, was unable to attend the meeting because he 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 2020 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 2020 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 considers paying dividends twice a year, which are interim dividend and final dividend. From time to time, the Board may declare interim dividend. Under normal business conditions, and subject to the approval by the shareholders in a general meeting, the Board may recommend final dividend to maintain a stable dividend payout ratio (defined as the aggregated amount of interim dividend and final dividend in each financial year divided by the Group's audited net profits attributable to the shareholders in that year) but there is no assurance that dividends will be paid in any particular amount for any given period. The Board may also declare special dividends in addition to such dividends, or consider the issuance of bonus shares on a basis permitted by the applicable laws and regulations as it considers appropriate.

For the year ended 31 December 2020, an interim dividend of HK\$0.05 per share was declared on 25 August 2020 and paid on 23 September 2020 (2019: HK\$0.05 per share). The Board recommended a final dividend of HK\$0.05 per share (2019: HK\$0.06 per share) which, together with the interim dividend, will result in total dividends of HK\$0.10 per share for the year ended 31 December 2020 (2019: HK\$0.11 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, 26 May 2021 which is the Record Date for the proposed final dividend. The proposed final dividend is expected to be paid on or about Tuesday, 8 June 2021.

## **ANNUAL GENERAL MEETING**

The 2021 Annual General Meeting of the Company will be held at 2:00 p.m. on 21 May 2021 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 Monday, 17 May 2021 to Friday, 21 May 2021, 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., Friday, 14 May 2021.

## **PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

This results announcement is published on the Company's website ([www.ssygroup.com.hk](http://www.ssygroup.com.hk)) and on the website of Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)). The 2020 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 2021

*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.*