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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 2016

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 2016.

I. RESULT AND DIVIDEND DISTRIBUTION

As the entire nation was overcast by an economic slowdown and against the backdrop of increasingly fierce competition among pharmaceutical business operations, the Company managed to achieve hard-won results. Aspiring to seize the timing for consolidation throughout the intravenous infusion solutions industry as a result of the nation's policy to put restraints on infusion solutions and regulate pharmaceutical tendering and bidding, we put serious efforts into expanding the product market, adjusting product mix, and reducing product costs. We strive to strengthen our competitiveness on the market, increase the sales volume of products, enlarge the sales market, and witness the skyrocketing number of end user clients. The Group's market position within the industry as well as cost and quality advantages were further reinforced whereas industry consolidation brought in broader market prospects for the Company.

During the year, the Group achieved a revenue of HK\$2,361 million (or Renminbi ("RMB")2,024 million), representing an increase of 6.3% (or 13.3% in RMB) compared with last year with the gross profit margin of 51.6%, representing a 4.4 percentage point increase compared with last year. The Group achieved a net profit of HK\$490 million (or RMB420 million) which represented a year-on-year increase of 21.3% (or 29.4% in RMB) even when RMB's depreciation indeed had a relatively huge impact on the Company's results and performance.

The Group resolved to pay on 9 June 2017 a final dividend for the year ended 2016 of HK\$0.03 per share to the shareholders named in the register of members of the Company on 29 May 2017 amounting to HK\$85.2 million (the corresponding period of last year: nil). Together with an interim dividend of HK\$0.025 per share, a full-year dividend of HK\$0.055 per share (the full-year dividend for last year: HK\$0.025 per share) amounted to HK\$156 million and represented a 122% increase compared with last year.

II. BUSINESS REVIEW

Revenue

For the year ended 31 December 2016, the revenue of the Group amounted to approximately HK\$2,361,250,000, representing an increase of 6.3% as compared to HK\$2,221,921,000 in last year. A breakdown of the revenue of the Group for the year ended 31 December 2016 is set out as follows:

| | 2016 | | 2015 | | Increase/ (decrease) % |
|---|----------------------------|-------------------------------|----------------------------|-------------------------------|------------------------------|
| | Revenue <i>HK\$'000</i> | Percentage of revenue % | Revenue <i>HK\$'000</i> | Percentage of revenue % | |
| Intravenous infusion solution and others | 2,219,056 | 94.0 | 2,175,536 | 97.9 | 2.0 |
| (Including: Non-PVC soft bag & upright soft bag infusion solution | 1,337,514 | 56.7 | 1,278,288 | 57.5 | 4.6 |
| PP plastic bottle infusion solution | 500,915 | 21.2 | 502,196 | 22.6 | (0.3) |
| Glass bottle infusion solution | 224,715 | 9.5 | 226,244 | 10.2 | (0.7) |
| Others) | 155,912 | 6.6 | 168,808 | 7.6 | (7.6) |
| Medical materials | <u>142,194</u> | <u>6.0</u> | <u>46,385</u> | <u>2.1</u> | <u>206.6</u> |
| Total | <u>2,361,250</u> | <u>100</u> | <u>2,221,921</u> | <u>100</u> | <u>6.3</u> |

(1) Sales of Products

While strengthening the current market penetration, we placed emphasis on market share growth in new bid-winning provinces with concentrated efforts on market development for soft bags, particularly the market for advantageous products such as upright soft bags in an endeavor to effectually ensure sales growth of the Company's leading products. On the production side, by virtue of employing integrated bottle-ring pull among other production

technologies and technical modifications, and continuously improving the efficiency of equipment operations, the results of energy saving and cutting back on raw materials were prominent. We also placed emphasis on controlling the process involved in materials procurement and consumption as well as using self-manufactured co-extrusion films at a much higher level so as to ensure that the Company's products had cost and quality advantages.

During 2016, we achieved a sales volume of 1,118 million bags/ bottles of intravaneons infusion solutions, among which the sales volume of standard soft bags amounted to 416 million bags, representing an increase of 4.8% compared with last year and the sales volume of upright soft bags amounted to 140 million bags, representing an year-on-year increase of 45.2%, thereby reinforcing the Group's operational advantage through the economy of scale.

(2) Research and Development of New Products

The Company's innovation capacity was further enhanced. During the year, the approval for the Company to establish the "National and Local Joint Engineering Laboratory to Control the Quality of Injectable Chemical Drug Formulations" was granted by the National Development and Reform Commission. The laboratory can delve into theories and techniques in relation to quality control throughout the production process of injectable chemical drug formulations, establish consistent quality reviews for injectable formulations, function as a base for the development, scientific research, and implementation of new products, cultivate high-tech talent, and offer technical support for the development of domestic injectable formulations industry in accordance with the requirements of the nation's industry policy and the execution of the development strategy. The establishment of the laboratory will significantly enhance the Group's innovation capability and provide key technologies and services for the development of the Group, thereby prompting and raising the standard of self-initiated innovation capability of the injectable chemical drug industry across the nation.

The results of research and development of new products were prominent. We obtained production approval for Ambroxol Hydrochloride and Sodium Chloride Injection, being the second entity in China to obtain such approval of intravenous infusion solutions on the market; became the first entity in China to obtain approvals for clinical trial for Ibuprofen and Sodium Chloride Injection (a variety of intravenous infusion solutions with antipyretic and analgesic effects) and for Acetaminophen Injection and to commence clinical verification process; obtained 32 approvals for clinical trial for previous Type 3 chemical drugs including Stiripentol for Suspension for the treatment of epilepsy in children ; obtained 14 bioequivalence clinical trial approvals for generic drugs including Felodipine Extended-Release Tablets for the treatment of cardiovascular and cerebrovascular diseases. Meanwhile, we completed bioequivalence studies of Levamlodipine Besylate Tablet, a drug for the treatment of high blood pressure and submitted the application for production. A business blueprint with intravenous infusion solutions as the central products along with diversified development is gradually taking shape.

(3) Acquisition of Assets and Businesses

During the year, the operating profit of Jiangsu Best New Medical Material Co., Ltd. a manufacturer of medical materials that the Company had wholly acquired, met the target promised by the Vendor, hence the acquisition was fully completed. Following the incorporation of Jiangsu Best into the Group, the synergy with the Company's intravenous infusion solutions business was fully leveraged so as to thoroughly prepare for the implementation of medical materials-related review and assessment and in turn improve business competitiveness. Its production capacity ensured sufficient materials such as co-extrusion films and stoppers for the Company's intravenous infusion solutions, which not only reduced on costs of the Group's intravenous infusion solution products but also resulted in significantly enhanced economic benefits for Jiangsu Best itself.

During the year, the Group's percentage of equity interest in Hebei Hanlin, a company that had commenced producing, merchandising, and promoting peptide anti-wrinkle cosmetic products on the market, further increased to 75%. Nevertheless, other products under research and development still have a long way before going into market.

III. PROSPECTS FOR DEVELOPMENT

Looking ahead for year 2017, although the environments of policies, markets and operations remain difficult in general, with the elimination and survival of the companies in the intravenous infusion solutions industry, the competitive advantages and superior position of leading entities become increasingly prominent. The Company's growth in market share and the economic benefits brought about by our advantages in the market will become apparent this year.

The Group will continue its focused efforts on the promotions and operations in the market for products including upright soft bags, double-soft-tube and double-hard-tube standard soft bags, and liquid injections in ampules, concentrate on the sales of products including soft bag rinsing solutions, therapeutic infusion solutions, oral formulations, and antiseptic products whereas keeping its leading position in the industry of soft bag infusion solutions production and sales as well as maintaining the profitability of intravenous infusion solution products. The sales volume of intravenous infusion solution products is planned to achieve 1,300 million bags/bottles this year, among which the sales volume of standard soft bags is 440 million bags, and the sales volume of upright soft bags is 226 million bags.

Regarding innovation, we aspire to leverage on the prime timing of being granted the permission to set up the Nation and Local Joint Engineering Laboratory, practically utilize the function of a postdoctoral scientific research workstation, seize the timing of adjustments on the drug review and assessment mechanism, project the innovative vision onto the field of national research on major innovative drugs, act quickly on research and development of new varieties with a huge market potential and technology-intensive, and simultaneously pay attention to the research and development applications for new products along with consistency reviews of existing key varieties so as to practically speed up the progress of application and approval for products and elevate the transformation efficiency of research results.

Jiangsu Best will enhance the production capacity of large co-extrusion film and special rubber stopper products by way of technical renovation and process optimization, and achieve the innovative transformation of high value-added products to improve our own competitiveness in the market.

We will maintain the advantages in infusion solution production technique and products, improve infusion solution formulations and product varieties, formulate product groups of basic infusion solution series with all-inclusive package types, rinsing solution specialised products for surgical operations, surgery and emergency treatment-related therapeutic series, dialysis product series, parenteral nutrition infusion solution series and antiseptic series.

We plan to obtain 11 production approvals for preparations and raw material drugs including Balanced Saline Solution (Type 3 chemical drug) and Hydroxyethyl Starch Injection (Type 4 chemical drug), complete the application for production for 7 projects, apply for approvals for clinical trial for 7 projects, as well as commence clinical trial for 18 projects this year.

We are full of confidence in the Company's future development. Leveraging on our advantages in scale, quality and streamlined management, our market share will increase through industry consolidation and such market advantages will start to achieve preliminary results this year. With the launch of our new products in succession, the Company's product mix would gradually move toward perfection and the ability to hedge against market risks would be further enhanced so as to generate satisfactory returns for our investors.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

(Expressed in Hong Kong dollars)

| | Note | 2016 HK\$'000 | 2015 HK\$'000 |
|--|------|--------------------|--------------------|
| Revenue | 3 | 2,361,250 | 2,221,921 |
| Cost of sales | | <u>(1,143,808)</u> | <u>(1,172,352)</u> |
| Gross profit | | 1,217,442 | 1,049,569 |
| Other income | | 64,679 | 50,485 |
| Selling and distribution costs | | (373,160) | (280,522) |
| General and administrative expenses | | <u>(268,438)</u> | <u>(277,992)</u> |
| Profit from operations | | 640,523 | 541,540 |
| Finance income | | 2,260 | 3,430 |
| Finance costs | | <u>(54,118)</u> | <u>(65,118)</u> |
| Finance costs — net | 4(a) | (51,858) | (61,688) |
| Share of losses of a joint venture | | (2,211) | (1,540) |
| Gain on deemed disposal of investment in a joint venture | | <u>1,464</u> | <u>—</u> |
| Profit before taxation | 4 | 587,918 | 478,312 |
| Income tax | 5 | <u>(97,677)</u> | <u>(74,859)</u> |
| Profit for the year | | <u>490,241</u> | <u>403,453</u> |
| Other comprehensive income for the year, net of nil tax | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation to presentation currency | | <u>(230,387)</u> | <u>(178,302)</u> |
| Other comprehensive income for the year | | <u>(230,387)</u> | <u>(178,302)</u> |
| Total comprehensive income for the year | | <u>259,854</u> | <u>225,151</u> |

| | <i>Note</i> | 2016 HK\$'000 | 2015 <i>HK\$'000</i> |
|--|-------------|--------------------------------|-------------------------|
| Profit attributable to: | | | |
| Equity shareholders of the Company | | 489,535 | 403,416 |
| Non-controlling interests | | 706 | 37 |
| | | <u> </u> | <u> </u> |
| Profit for the year | | <u>490,241</u> | <u>403,453</u> |
| Total comprehensive income attributable to: | | | |
| Equity shareholders of the Company | | 259,148 | 225,156 |
| Non-controlling interests | | 706 | (5) |
| | | <u> </u> | <u> </u> |
| Total comprehensive income for the year | | <u>259,854</u> | <u>225,151</u> |
| Earnings per share | | | |
| — Basic | <i>6(a)</i> | <u>HK\$0.1730</u> | <u>HK\$0.1384</u> |
| — Diluted | <i>6(b)</i> | <u>HK\$0.1716</u> | <u>HK\$0.1381</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2016

(Expressed in Hong Kong dollars)

| | | 31 December 2016 | 31 December 2015 |
|--|-------------|---------------------|---------------------|
| | <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current assets | | | |
| Property, plant and equipment | | 2,393,091 | 2,693,812 |
| Land use rights | | 248,771 | 271,794 |
| Intangible assets | | 418,509 | 381,454 |
| Deferred tax assets | | 3,053 | 4,147 |
| Investment in a joint venture | | — | 22,395 |
| Long-term receivables | | 1,118 | 1,194 |
| | | <u>3,064,542</u> | <u>3,374,796</u> |
| Current assets | | | |
| Inventories | | 278,228 | 282,518 |
| Trade and bills receivables | 7 | 857,387 | 935,426 |
| Prepayments, deposits and other receivables | | 88,680 | 75,531 |
| Pledged bank deposits and time deposits | | 8,201 | 859 |
| Cash and cash equivalents | | 447,036 | 338,964 |
| | | <u>1,679,532</u> | <u>1,633,298</u> |
| Current liabilities | | | |
| Borrowings | | 633,126 | 687,742 |
| Trade payables | 8 | 173,746 | 269,502 |
| Advance receipts from customers | | 15,530 | 10,196 |
| Accruals and other payables | | 250,033 | 445,154 |
| Income tax payable | | 23,120 | 21,723 |
| | | <u>1,095,555</u> | <u>1,434,317</u> |
| Net current assets | | <u>583,977</u> | <u>198,981</u> |
| Total assets less current liabilities | | 3,648,519 | 3,573,777 |

| | 31 December | 31 December |
|--|-------------------------|-------------------------|
| | 2016 | 2015 |
| <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current liabilities | | |
| Borrowings | 934,737 | 1,125,351 |
| Deferred tax liabilities | 26,810 | 23,631 |
| Deferred revenue | 2,550 | 5,743 |
| Other non-current liabilities | — | 23,873 |
| | <u>964,097</u> | <u>1,178,598</u> |
| NET ASSETS | <u>2,684,422</u> | <u>2,395,179</u> |
| CAPITAL AND RESERVES | 9 | |
| Share capital | 63,700 | 62,851 |
| Reserves | <u>2,612,774</u> | <u>2,331,665</u> |
| Total equity attributable to equity shareholders of the Company | 2,676,474 | 2,394,516 |
| Non-controlling interests | <u>7,948</u> | <u>663</u> |
| TOTAL EQUITY | <u>2,684,422</u> | <u>2,395,179</u> |

SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The consolidated financial statements for the year ended 31 December 2016 comprise the Company, its subsidiaries and its joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for derivative financial instruments that are measured at fair value.

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

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

Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- Annual Improvements to HKFRSs 2012-2014 Cycle
- Amendments to HKAS1, Presentation of financial statements: Disclosure initiative

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. The entire segment of medical materials was acquired on 30 September 2015. 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.

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 2016 and 2015 is set out below.

| | Intravenous infusion solution and others HK\$'000 | Medical materials HK\$'000 | Unallocated HK\$'000 | Total HK\$'000 |
|---|--|---|---------------------------------|---------------------------|
| Revenue from external customers | 2,219,056 | 142,194 | — | 2,361,250 |
| Inter-segment revenue | — | 95,960 | — | 95,960 |
| Reportable segment revenue | <u>2,219,056</u> | <u>238,154</u> | <u>—</u> | <u>2,457,210</u> |
| Operating profit/(loss)/ segment results | 656,894 | 26,706 | (43,077) | 640,523 |
| Finance income | 2,223 | 37 | — | 2,260 |
| Finance costs | (45,611) | (2,507) | (6,000) | (54,118) |
| Profit/(loss) before taxation | 612,759 | 24,236 | (49,077) | 587,918 |
| Income tax | (92,771) | (4,906) | — | (97,677) |
| Reportable segment profit/(loss) for the year | <u>519,988</u> | <u>19,330</u> | <u>(49,077)</u> | <u>490,241</u> |
| Amortisation of land use rights | 5,658 | 380 | — | 6,038 |
| Depreciation of property, plant and equipment | 214,932 | 15,425 | 771 | 231,128 |
| Amortisation of intangible assets | 4,594 | 5,288 | — | 9,882 |
| Provision for/(reversal of) impairment of receivables | 1,345 | (1,452) | — | (107) |
| Total assets/reportable segment assets | 4,398,839 | 331,116 | 14,119 | 4,744,074 |
| Additions to non-current assets | 132,935 | 15,738 | — | 148,673 |
| Total liabilities/reportable segment liabilities | 1,261,682 | 99,002 | 698,968 | 2,059,652 |

| | 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> |
|---|--|---|--------------------------------|--------------------------|
| Revenue from external customers | 2,175,536 | 46,385 | — | 2,221,921 |
| Inter-segment revenue | — | 15,198 | — | 15,198 |
| Reportable segment revenue | 2,175,536 | 61,583 | — | 2,237,119 |
| Operating profit/(loss)/ segment results | 568,565 | 6,376 | (33,401) | 541,540 |
| Finance income | 2,155 | 237 | 1,038 | 3,430 |
| Finance costs | (55,855) | (1,127) | (8,136) | (65,118) |
| Profit/(loss) before taxation | 513,325 | 5,486 | (40,499) | 478,312 |
| Income tax | (74,255) | (604) | — | (74,859) |
| Reportable segment profit/(loss) for the year | 439,070 | 4,882 | (40,499) | 403,453 |
| Amortisation of land use rights | 4,983 | 98 | — | 5,081 |
| Depreciation of property, plant and equipment | 198,410 | 6,443 | 812 | 205,665 |
| Amortisation of intangible assets | 4,070 | 1,370 | — | 5,440 |
| Provision for write-down of inventories | — | 238 | — | 238 |
| Provision for/(reversal of) impairment of receivables | 569 | (499) | — | 70 |
| Total assets/reportable segment assets | 4,575,882 | 376,138 | 56,074 | 5,008,094 |
| Additions to non-current assets | 468,258 | 5,680 | 91 | 474,029 |
| Total liabilities/reportable segment liabilities | 1,836,395 | 79,141 | 697,379 | 2,612,915 |

The total of non-current assets were as follows:

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Non-current assets other than deferred tax assets | | |
| — the PRC | 3,060,811 | 3,369,217 |
| — Hong Kong | 678 | 1,432 |
| Deferred tax assets | 3,053 | 4,147 |
| | 3,064,542 | 3,374,796 |

The directors have also determined that no geographical segment information is presented as over 95% of the Group's revenue and operating profits are derived with the PRC and over 95% of the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

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. Revenue recognised as follows:

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Sales of pharmaceutical products | 2,206,522 | 2,152,290 |
| Sales of medical materials | 140,602 | 45,324 |
| Services income | 6,416 | 14,144 |
| Rental income | 4,032 | 3,718 |
| Processing income | — | 4,423 |
| Sales of raw materials and by products | 3,678 | 2,022 |
| | 2,361,250 | 2,221,921 |

For the year ended 31 December 2016, no customer with whom transactions have exceeded 10% of the Group's revenue.

4 Profit before taxation

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

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| (a) Finance income and costs | | |
| Finance income: | | |
| — Interest income on bank deposits | (2,260) | (3,371) |
| — Cash discount income | <u>—</u> | <u>(59)</u> |
| Finance income | <u>(2,260)</u> | <u>(3,430)</u> |
| Finance costs: | | |
| — Interest expense of borrowings | 53,370 | 58,245 |
| — Other bank charges | 3,321 | 2,581 |
| — Net foreign exchange loss | <u>1,176</u> | <u>19,584</u> |
| | 57,867 | 80,410 |
| Less: interest expense capitalised into qualifying assets * | <u>(3,749)</u> | <u>(15,292)</u> |
| Finance costs | <u>54,118</u> | <u>65,118</u> |
| Finance costs — net | <u>51,858</u> | <u>61,668</u> |

* The borrowing costs have been capitalised at a rate of 4.24% per annum (2015: 7.02%).

(b) Staff costs

| | | |
|---|-----------------------|-----------------------|
| — Contributions to defined contribution retirement plan | 32,775 | 31,919 |
| — Equity-settled share-based payment expenses | 26,686 | 39,431 |
| — Salaries, wages and other benefits | <u>278,004</u> | <u>236,923</u> |
| | <u>337,465</u> | <u>308,273</u> |

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| (c) Other items | | |
| Amortisation [#] | | |
| — land use rights | 6,038 | 5,081 |
| — intangible assets | 9,882 | 5,440 |
| | <u>15,920</u> | <u>10,521</u> |
| Depreciation [#] | <u>231,128</u> | <u>205,665</u> |
| (Reversal of)/provision for impairment of | | |
| — trade and bills receivables | <u>(107)</u> | <u>375</u> |
| Auditors' remuneration | | |
| — audit services | 2,000 | 1,920 |
| — non-audit services | — | 798 |
| | <u>2,000</u> | <u>2,718</u> |
| Cost of inventories [#] | <u>618,527</u> | <u>697,654</u> |
| Operating lease charges: minimum lease payments | <u>8,231</u> | <u>9,663</u> |
| Research and development costs (other than amortisation costs) | 76,041 | 50,689 |
| Less: Costs capitalised into intangible assets | <u>(34,659)</u> | <u>(12,488)</u> |
| | <u>41,382</u> | <u>38,201</u> |
| Other expenses | | |
| — transportation expenses | 245,446 | 205,842 |
| — utility expenses | 142,237 | 133,329 |
| — travelling, meeting and entertainment expenses | 46,002 | 35,595 |
| — surcharges and other tax expenses | 45,453 | 43,800 |
| | <u>479,138</u> | <u>418,566</u> |

[#] Cost of inventories includes HK\$360,503,000 (2015: HK\$311,941,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above 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:*

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Current tax — the PRC Corporate Income Tax (“CIT”) | 98,427 | 83,279 |
| Deferred tax | | |
| Origination and reversal of temporary differences | <u>(750)</u> | <u>(8,420)</u> |
| | <u>97,677</u> | <u>74,859</u> |

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

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2016 and 2015 as the Group did not have any profits assessable to Hong Kong Profits Tax during the current and prior years.

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

Shijiazhuang No. 4 Pharmaceutical Co., Ltd. (“Shijiazhuang No.4”), Jiangsu Best New Medical Material Co., Ltd. (“Jiangsu Best”) and Hebei Guolong Pharmaceutical Co., Ltd. (“Hebei Guolong”) have been recognised as High and New Technology Enterprises in 2015, 2014 and 2014, respectively. According to the tax incentives rules of the CIT Law of the PRC (the “CIT Law”) for High and New Technology Enterprises, these companies are subject to a reduced corporate income tax rate of 15% for three years.

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:*

| | 2016 <i>HK\$ '000</i> | 2015 <i>HK\$ '000</i> |
|--|--------------------------|--------------------------|
| Profit before taxation | <u>587,918</u> | <u>478,312</u> |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned | 88,716 | 70,407 |
| Effect of PRC preferential tax rate | (1,849) | (3,142) |
| Effect of non-deductible expenses | 6,679 | 13,598 |
| Effect of non-taxable income | (2) | (191) |
| Effect of unused tax losses not recognised | 176 | 1,308 |
| Effect of joint venture's results reported net of tax | 55 | 231 |
| Effect on deferred tax balances at 1 January resulting from a change in tax rate | — | (8,149) |
| Withholding tax charge related to interests income | 343 | 797 |
| Withholding tax on profit distributions | <u>3,559</u> | <u>—</u> |
| Actual tax expense | <u>97,677</u> | <u>74,859</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\$489,535,000 (2015: HK\$403,416,000) and the weighted average of 2,830,071,000 ordinary shares (2015: 2,915,556,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

| | 2016 <i>'000</i> | 2015 <i>'000</i> |
|---|---------------------|---------------------|
| Issued ordinary shares at 1 January | 2,802,191 | 2,968,527 |
| Effect of purchase and cancellation of own shares | (1,074) | (52,971) |
| Effect of share options exercised | 8,443 | — |
| Effect of shares issued upon acquisition of a subsidiary | <u>20,511</u> | <u>—</u> |
| Weighted average number of ordinary shares at 31 December | <u>2,830,071</u> | <u>2,915,556</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\$489,535,000 (2015: HK\$403,416,000) and the weighted average of 2,852,924,000 ordinary shares (2015: 2,922,039,000 ordinary shares) after adjusting the effects of dilutive potential ordinary shares under the Company's share option scheme, calculated as follows:

Weighted average number of ordinary shares (diluted)

| | 2016 '000 | 2015 '000 |
|--|----------------------------|---------------------|
| Weighted average number of ordinary shares at 31 December (basic) | 2,830,071 | 2,915,556 |
| Effect of deemed issue of shares under the Company's share option scheme | <u>22,853</u> | <u>6,483</u> |
| Weighted average number of ordinary shares at 31 December (diluted) | <u>2,852,924</u> | <u>2,922,039</u> |

7. Trade and bills receivables

| | 2016 HK\$'000 | 2015 HK\$'000 |
|---|--------------------------------|-------------------------|
| Trade receivables | 676,076 | 688,705 |
| Bills receivable | <u>185,701</u> | <u>251,500</u> |
| | 861,777 | 940,205 |
| <i>Less:</i> Allowance for doubtful debts | <u>(4,390)</u> | <u>(4,779)</u> |
| | <u>857,387</u> | <u>935,426</u> |

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

(a) *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:

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|-----------------|--------------------------------|-------------------------|
| Within 3 months | 719,969 | 824,016 |
| 4 to 6 months | 109,746 | 95,599 |
| 7 to 12 months | 31,045 | 19,171 |
| 1 to 2 years | 1,017 | 1,419 |
| | <u>861,777</u> | <u>940,205</u> |

(b) *Impairment of trade and bills receivables*

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivable directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|---------------------------------------|--------------------------------|-------------------------|
| At 1 January | 4,779 | 2,580 |
| Impairment loss (reversed)/recognised | (107) | 375 |
| Written off | — | (209) |
| Acquisition of a subsidiary | — | 2,249 |
| Exchange adjustments | (282) | (216) |
| | <u>4,390</u> | <u>4,779</u> |

As at 31 December 2016, impaired trade receivables amounting to approximately HK\$4,390,000 (2015: HK\$4,779,000) were assessed for impairment and a provision of HK\$4,390,000 (2015: HK\$4,779,000) for impaired receivables was recorded, covering individually impaired receivables and groups of receivables subject to collective review. Those individually impaired receivables mainly relate to customers in unexpected difficult economic situations and items aged over one year.

(c) *Trade and bills receivables that are not impaired*

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|-------------------------------|--------------------------------|-------------------------|
| Neither past due nor impaired | <u>719,969</u> | <u>824,016</u> |
| Less than 3 months past due | 109,746 | 95,599 |
| More than 3 months past due | <u>27,672</u> | <u>15,811</u> |
| | <u>137,418</u> | <u>111,410</u> |
| | 857,387 | 935,426 |

Trade and bills receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade and bills receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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:

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|-------------------|--------------------------------|-------------------------|
| Within 3 months | 157,751 | 186,821 |
| 4 to 6 months | 9,761 | 55,824 |
| 7 to 12 months | 3,490 | 22,481 |
| 1 to 3 years | 1,917 | 3,520 |
| More than 3 years | <u>827</u> | <u>856</u> |
| | 173,746 | 269,502 |

9. Dividends and share capital

(a) Dividends

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

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Interim dividend declared and paid of HK2.5 cents per ordinary share (2015: HK2.5 cents per ordinary share) | 71,115 | 70,463 |
| Final dividend proposed after the end of the reporting period of HK\$3.0 cents per ordinary share (2015: nil) | <u>85,200</u> | <u>—</u> |
| | <u>156,315</u> | <u>70,463</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 previous financial year, approved and paid during the year

| | 2016 <i>HK\$'000</i> | 2015 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Special dividend in respect of the previous financial year, approved and paid during the year, of nil (2015: HK17.2 cents per share) | <u>—</u> | <u>510,587</u> |

(b) Share capital

| | 2016 | | 2015 | |
|--|-------------------------|----------------------|-------------------------|----------------------|
| | No. of shares '000 | <i>HK\$'000</i> | No. of shares '000 | <i>HK\$'000</i> |
| Ordinary shares of HK\$0.02 each, issued and fully paid: | | | | |
| At 1 January | 2,802,191 | 62,851 | 2,968,527 | 66,177 |
| Purchase and cancellation of own shares | (1,018) | (20) | (166,336) | (3,326) |
| Share issued under share option scheme | 15,000 | 300 | — | — |
| Share issued upon acquisition of a subsidiary | <u>28,436</u> | <u>569</u> | <u>—</u> | <u>—</u> |
| | <u>2,844,609</u> | <u>63,700</u> | <u>2,802,191</u> | <u>62,851</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

SSY Group Limited and its subsidiaries 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 ("Mainland China"), and sells to customers mainly in the Mainland China.

For the year ended 31 December 2016, the review on the Group's business performance are contained in the Chairman's statement under section headed "BUSINESS REVIEW". The future development in the Group's business is discussed in the Chairman's statement under section headed "PROSPECTS FOR DEVELOPMENT".

FINANCIAL PERFORMANCE REVIEW

Revenue

The Group's intravenous infusion solution products are mainly manufactured and sold by Shijiazhuang No. 4 Pharma 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. The Group's medical materials are mainly manufactured and sold by Jiangsu Best New Medical Material Co., Ltd. ("Jiangsu Best"), which was acquired by the Group on 30 September 2015.

Majority of the Group's sales are conducted in the PRC and are denominated in Renminbi ("RMB"), which depreciated by approximately 6.2% when translated into Hong Kong dollars ("HK") on a year-to-year basis for the year ended 31 December 2016. Nevertheless, revenue for the year ended 31 December 2016 increased to HK\$2,361,250,000 (2015: HK\$2,221,921,000), representing a growth of 6.3% on a year-to-year basis. Among which, revenue from intravenous infusion solution products contributed HK\$2,063,144,000 (2015: HK\$2,006,728,000), representing a growth of 2.8% on a year-to-year basis. Among which, revenue from Non-PVC Soft Bag and Upright Soft Bag infusion solution were HK\$1,130,550,000 and HK\$206,964,000 respectively, totalling HK\$1,337,514,000, representing 64.8% of the total revenue from intravenous infusion solution and an increase of 4.6% as compared with last year; revenue from PP Plastic Bottle infusion solution was HK\$500,915,000, representing 24.3% of the total revenue from intravenous infusion solution and an decrease of 0.3% as compared with last year; revenue from Glass Bottle infusion solution was HK\$224,715,000, representing 10.9% of the total revenue from intravenous infusion solution and a decrease of 0.7% as compared with last year.

With the increasing demand in the high quality intravenous infusion solution products in the PRC, the Group will keep focusing its production in the Non-PVC Soft Bag and Upright Soft Bag infusion solution.

Revenue from medical materials products contributed HK\$142,194,000 (2015: HK\$46,385,000), representing a growth of 206.6% mainly due to a full year contribution by Jiangsu Best in 2016 as compared to that from three months in 2015.

Cost of Sales

As a result of depreciation in RMB and cost control measures of the Group, the Group's cost of sales decreased by 2.4% from HK\$1,172,352,000 for the year ended 31 December 2015 to HK\$1,143,808,000 for the year ended 31 December 2016. The cost of direct materials, direct labour and other costs represented approximately 53.7%, 15.7% and 30.6% of the total cost of sales respectively for the year ended 31 December 2016 while their comparative percentages for 2015 were 59.5%, 12.3% and 28.2% respectively.

Gross Profit Margin

Gross profit of the Group in 2016 amounted to HK\$1,217,442,000 (2015: HK\$1,049,569,000), representing a gross profit margin of 51.6%, which increased by 4.4 percentage point comparing to that of last year 47.2%. The increase of gross profit margin was mainly due to a better product mix from products with higher profit margins and the Group's continuous cost control measures.

Other income

For the year ended 31 December 2016, the Group's other income amounted to approximately HK\$64,679,000 (2015: HK\$50,485,000) which mainly represented government grants.

Selling and Marketing Costs

For the year ended 31 December 2016, selling and marketing costs amounted to approximately HK\$373,160,000 (2015: HK\$280,522,000), which mainly consisted of transportation cost of approximately HK\$241,456,000 (2015: HK\$201,877,000), travelling and other disbursements of approximately HK\$38,186,000 (2015: HK\$30,455,000) and staff costs of sales and marketing staff of approximately HK\$42,724,000 (2015: HK\$21,350,000).

The increase of 33.0% in selling and marketing costs in 2016 as compared with that of 2015 was mainly due to the growth in the Group's sales volume as well as the increases in transportation cost and salary expenses of sales and marketing staff as a result of an expanded sales coverage.

General and Administrative Expenses

General and administrative expenses amounted to HK\$268,438,000 (2015: HK\$277,992,000) for the year ended 31 December 2016 which mainly comprised staff costs of approximately HK\$88,117,000 (2015: HK\$103,343,000), depreciation and amortisation expenses of approximately HK\$65,438,000 (2015: HK\$47,343,000) and grant of share options of approximately HK\$26,686,000 (2015: HK\$39,431,000).

The Group's overall operation has been expanding, even so, the general and administrative expenses slightly decreased by 3.4% from last year due to smaller expenses related to grant of share options and discretionary bonus along with the Group's cost control measures.

Profit from Operations

The Group's profit from operations in 2016 amounted to HK\$640,523,000 (2015: HK\$541,540,000) with its operating profit margin (defined as operating profit divided by total revenue) increased to 27.1% (2015: 24.4%). The increase in operating profit margin in 2016 by 2.7 percentage point comparing to that of 2015 was mainly attributable to a higher gross profit margin in 2016.

Finance Costs

The finance costs in 2016 decreased by 16.9% to HK\$54,118,000 (2015: HK\$65,118,000), which are mainly related to interest expense of bank borrowings. The decrease in finance costs was mainly attributable to a lower foreign exchange loss due to depreciation of RMB during 2016 as compared to that during 2015.

Income Tax Expense

Shijiazhuang No. 4 Pharma, Jiangsu Best and Hebei Guolong Pharmaceutical Co., Ltd. were qualified as the High and New Technology Enterprise and entitled to a 15% preferential Mainland China Corporate Income Tax rate in both 2016 and 2015. For the year ended 31 December 2016, the income tax expense increased by 30.5% to HK\$97,677,000 (2015: HK\$74,859,000).

Profit Attributable to Equity Shareholders

Profit attributable to equity holders of the Company increased by 21.3% to HK\$489,535,000 (2015: HK\$403,416,000) with a net profit margin (defined as profit attributable to equity holders of the Company from continuing operations divided by total revenue) increased to 20.7% (2015: 18.2%).

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 operating cash flow is insufficient to meet the capital requirements.

As at 31 December 2016, the cash and cash equivalents aggregated to HK\$447,036,000 (2015: HK\$338,964,000), comprising HK\$415,119,000 (2015: HK\$267,969,000) of cash and cash equivalents denominated in RMB, HK\$17,245,000 (2015: HK\$64,672,000) in Hong Kong dollars and HK\$14,672,000 (2015: HK\$6,323,000) in other currencies.

The carrying amounts of the borrowings amounting to HK\$1,567,863,000 (2015: HK\$1,813,093,000) as at 31 December 2016, comprising HK\$758,690,000 (2015: HK\$760,343,000) of borrowings denominated in RMB and HK\$809,173,000 (2015: HK\$1,052,750,000) in Hong Kong dollars.

Gearing ratio (defined as bank borrowings less cash and cash equivalents divided by total capital less non-controlling interests) decreased from 38.1% as at 31 December 2015 to 29.5% as at 31 December 2016 due to a decrease in net debt level of the Group and an increase in the Group's net asset value as at 31 December 2016 as compared to 31 December 2015.

Current ratio (defined as current assets divided by current liabilities) improved from 1.14 as at 31 December 2015 to 1.53 as at 31 December 2016.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2016, the Group had approximately 3,500 employees, 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, discretionary bonuses and share options 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. 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 2016 was approximately HK\$337,465,000 (2015: HK\$308,273,000).

CHARGE ON ASSETS

As at 31 December 2016, the Group's land use right with carrying amount of HK\$19,241,000 (2015: HK\$49,247,000) and the Group's property, plant and equipment with carrying amount of HK\$28,979,000 (2015: HK\$57,119,000) were pledged as collateral for the Group's bank borrowings.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE RISK

Majority of the Group's businesses are operated in the PRC and are denominated in RMB. Except for the foreign currency translation risk arising from the translation into Hong Kong dollars for the financial statements of subsidiaries with the functional currencies of RMB, the Group does not

expect any materially adverse effects of the exchange rate fluctuation. Hence, no financial instrument for hedging was employed. Nevertheless, the Group is closely monitoring the financial market and would consider appropriate measures if required.

As at 2016 and 2015, the exchange rates of converting HK\$ into RMB (as calculated in HK\$) were:

| | |
|------------------|---------|
| 1 January 2015 | 0.78887 |
| 31 December 2015 | 0.83778 |
| 31 December 2016 | 0.89451 |

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save for the purchase of 5,672,000 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 2016.

During the year ended 31 December 2016, the Company acquired an aggregate of 5,672,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of HK\$13,207,090 which details are set out below. All of the 5,672,000 shares were subsequently cancelled on 18 February 2016 and 10 January 2017.

| 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\$) |
|------------------------------|--|--|---|---|
| 21 January 2016 | 1,018,000 | 1.91 | 1.88 | 1,928,090 |
| 21 December 2016 | <u>4,654,000</u> | 2.45 | 2.40 | <u>11,279,000</u> |
| | <u><u>5,672,000</u></u> | | | <u><u>13,207,090</u></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. During the year ended 31 December 2016, a total of 15,000,000 share options were exercised by one of management staff of the Group who was not a Director of the Company. As a result, a total of 15,000,000 ordinary shares of the Company was issued on 8 June 2016.

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. Please refer details of grant of share options to the Company's announcement dated 15 April 2016.

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. Please refer details of the refreshment of Scheme Mandate Limit to the Company's circular dated 26 April 2016.

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

| | 2016 | 2015 |
|--|---------------------------|---------------------------|
| Outstanding at the beginning of the year | 122,000,000 | — |
| Granted during the year | 122,000,000 | 122,000,000 |
| Exercised during the year | (15,000,000) | — |
| Lapsed during the year | — | — |
| | <hr/> | <hr/> |
| Outstanding and exercisable at the end of the year | <u>229,000,000</u> | <u>122,000,000</u> |

As at 31 December 2016, the share options granted under Share Option Scheme and remained outstanding had an weighted average exercise price of approximately HK\$2.30 (2015: HK\$1.98) and a remaining contractual life of approximately 3.13 years (2015: 2.80 years).

The details of share options movements during the year months ended 31 December 2016 are shown as follows:

(i) Directors of the Company

| Name of Director | Date of grant | Exercise price per share | Exercisable period | Number of share options | | | |
|------------------|---------------|--------------------------|---------------------------|---------------------------|-------------------------|---------------------------|----------------------------|
| | | | | Outstanding at 1 Jan 2016 | Granted during the year | Exercised during the year | Outstanding at 31 Dec 2016 |
| Mr. Qu Jiguang | 15 Apr 2016 | HK\$2.58 | 15 Apr 2016 — 14 Apr 2021 | — | 122,000,000 | — | 122,000,000 |
| Mr. Wang Xianjun | 19 Oct 2015 | HK\$1.98 | 19 Oct 2015 — 18 Oct 2018 | 24,416,000 | — | — | 24,416,000 |
| Mr. Su Xuejun | 19 Oct 2015 | HK\$1.98 | 19 Oct 2015 — 18 Oct 2018 | 24,416,000 | — | — | 24,416,000 |
| | | | | <u>48,832,000</u> | <u>122,000,000</u> | <u>—</u> | <u>170,832,000</u> |

(ii) Employees (other than directors of the Company)

| Date of grant | Exercise price per share | Exercisable period | Number of share options | | | |
|---------------|--------------------------|---------------------------|---------------------------|-------------------------|---------------------------|----------------------------|
| | | | Outstanding at 1 Jan 2016 | Granted during the year | Exercised during the year | Outstanding at 31 Dec 2016 |
| 19 Oct 2015 | HK\$1.98 | 19 Oct 2015 — 18 Oct 2018 | 73,168,000 | — | (15,000,000) | 58,168,000 |
| | | | <u>73,168,000</u> | <u>—</u> | <u>(15,000,000)</u> | <u>58,168,000</u> |

For the 122,000,000 share options granted during the year ended 31 December 2016, the fair value as at date of grant was HK\$26,686,000. Assuming that all share options outstanding as at 31 December 2016 are exercised, the Company will receive proceeds of HK\$526,620,000.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the latest practicable date, being 29 March 2017, and at all times during the year ended 31 December 2016.

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 2016.

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 year, the Company has complied with all applicable provisions of CG Code with deviation from code provision A.2.1 which 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.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's annual results for the year ended 31 December 2016 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 2016 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

An interim dividend of HK\$0.025 per share was declared on 30 August 2016 and paid on 30 September 2016 (2015: HK\$0.025 per share).

For the year ended 31 December 2016, the Board recommended a final dividend of HK\$0.03 per share (2015: nil) which, together with the interim dividend, will result in total dividends of HK\$0.055 per share for the year ended 31 December 2016 (2015: HK\$0.025 per share).

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., Monday, 29 May 2017 which is the Record Date for the proposed final dividend. The proposed final dividend is expected to be paid on or about Friday, 9 June 2017.

ANNUAL GENERAL MEETING

The 2017 Annual General Meeting of the Company will be held at 2:00 p.m. on 24 May 2017 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, 22 May 2017 to Wednesday, 24 May 2017, 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, 19 May 2017.

PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company's website (www.ssygroup.com.hk) and on the website of Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The 2016 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.

On behalf of the Board

Qu Jiguang

Chairman

Hong Kong, 29 March 2017

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