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石四藥集團有限公司 SSY Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2005)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of SSY Group Limited (the "Company"), I hereby present the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017.

I. RESULTS AND DIVIDEND DISTRIBUTION

During the first half of the year, the pharmaceutical industry in the PRC showed a steady growth as a whole that gradual implementation of various healthcare reform policies drove the industry consolidation. In the infusion solutions industry, the integration effect on the industry brought by national policies on restricting infusion solutions was obvious. The Company seized the opportunities by taking our own advantages in scale, quality and brand. Also, we strengthened market penetration in traditional market and, at the same time, tapped into new markets to maintain our development status at the leading position in the industry.

During the first half of the year, the Group achieved a revenue of HK\$1,325 million (or approximately RMB1,169 million), representing an increase of 19.5% (or approximately 25.2% in RMB) compared to the corresponding period of last year, and the gross profit margin increased by 5.3 percentage point. The net profit was HK\$288 million (or approximately RMB254 million), representing an increase of 36.9% (or approximately 43.4% in RMB) compared to the corresponding period of last year.

The Directors resolved to pay an interim dividend of HK3 cents per share for the six months ended 30 June 2017 (amounting to a total of approximately HK\$85,199,000) on 21 September 2017 to the shareholders named in the register of members of the Company on 8 September 2017.

II. BUSINESS REVIEW

	For the six months ended 30 June				
	2017		2016		Increase/ (decrease)
	Revenue <i>HK\$'000</i>	Percentage of revenue %	Revenue <i>HK\$'000</i>	Percentage of revenue %	
Intravenous infusion solution and others	1,261,165	95.2	1,036,716	93.5	21.6
(Including: Non-PVC soft bag & upright soft bag infusion solution	812,760	61.3	613,497	55.3	32.5
PP plastic bottle infusion solution	257,181	19.4	239,838	21.6	7.2
Glass bottle infusion solution	117,437	8.9	110,706	10.0	6.1
Others)	73,787	5.6	72,675	6.6	1.5
Medical materials	<u>64,172</u>	<u>4.8</u>	<u>72,396</u>	<u>6.5</u>	<u>(11.4)</u>
Total	<u>1,325,337</u>	<u>100</u>	<u>1,109,112</u>	<u>100</u>	<u>19.5</u>

(I) Sales of Products

During the first half of the year, the Company's products further widened its market and stepped up the development in new market such that certain new provinces had become our major markets. The Company gradually evolved from Northern China-based regional market into national market. With the product mix optimisation and the increase in the proportion of high price and high gross margin products, the volume growth of non-PVC and upright soft bags was significant, bringing the reasonable increase in the average selling price and gross profit margin of our products.

During the first half of the year, sales of intravenous infusion solutions reached 627 million bags/bottles, representing an increase of 16.3% compared with the same period last year. Sales of soft bag infusion, our major product, amounted to 332 million bags, representing a corresponding increase of 25.0%, in which the sales of upright soft bags reached 93 million bags, representing a corresponding increase of 35.2%, which was among the best in the industry and our advantage in product scale was further enhanced.

Our international export business maintained a rapid growth. During the first half of 2017, our exports achieved HK\$50.48 million, an increase of 30.2% compared with the same period last year. We also passed the quality inspection of our French customers, IDA quality inspection and the GMP certification of Ethiopian Ministry of Health. Currently, the Group has 66 registered product specifications for exporting to 78 countries or regions.

In respect of medical materials, the sales volume of rubber stoppers and the production volume of infusion films had a corresponding increase of 25% and 67% respectively during the first half of the year. While our existing market share of rubber stopper was being consolidated, we leveraged on our technological advantages, kept fostering the market expansion on our new products, such as high-end hemostix rubber stopper and disposable rubber stopper, to create profit growth point for the medical materials business of the Company with high-tech and high value-added products.

(II) Research and Development of New Products

The research and development for new products achieved a satisfactory result in the first half of the year. The Company obtained drug production permits for amino acid injection compound in soft bag package (18AA), sodium bicarbonate injection in plastic bottle package and tinidazole and sodium chloride injection in upright soft bag package; added new types of polypropylene ampoules liquid injections containing glucose injection and sterile water for injection with product specifications of 5ml, 10ml and 20ml. For consistency reviews, the Company completed the out-of-body evaluation and bioequivalence clinical trials for fluconazole tablets, and commenced the related bioequivalence clinical studies. In addition, we completed the bioequivalence clinical studies of levamlodipine beaylate and cefdinir capsules, in accordance with the original research applied for their productions. Meanwhile, in response to the national policy, the Company completed the research of sodium bicarbonate injection for children and levamlodipine beaylate applied for its production.

The radiation resistant and sterilised hemostix rubber stopper satisfied the needs for radiation resistant and sterilised hemostix products and filled the gaps in the domestic market. The new-developed semi-coated rubber stopper solved the compatibility issue between cancer drugs and rubber stopper, which can be used to replace the imported rubber stopper. Our self-developed disposable sterilised rubber stopper is suitable for foreign markets and is registered in the United States successfully.

Currently, the Group has 161 projects under research and development, 54 of which have been submitted for production registration evaluation. The innovative results were increasingly rich when the support from research and development was enhanced. In the first half of the year, the Group obtained 7 patents including 5 invention patents and 2 practical new patents; and applied for 6 patents including 3 invention patents and 3 practical new patents, which represented fruitful results of intellectual rights and provided sufficient support for the sustainable development of the Group.

III. PROSPECTS FOR DEVELOPMENT

Looking ahead for the second half of the year, the intravenous infusion solutions industry will regain its momentum after the industry consolidation led by national policies such as restriction on infusion solutions. The consolidation effect will continue to be revealed in the intravenous infusion solutions industry. The Company will grasp the opportunities to strengthen our two driving forces: marketing and research & development, to solidify and expand the Company's leading position in the intravenous infusion solutions industry.

In the second half of the year, the Group will make use of its own advantages over the scale and brand name for broadening the market of products, optimising product mix, enhancing production efficiency, introducing lean management, boosting the profitability of intravenous infusion solution products and realising the steady growth in both revenue and profit.

The Company is actively looking for acquisitions and mergers opportunities in pharmaceutical industry. As mergers and acquisitions will become a general trend in the industry due to intense market competition and national policies, the Company will actively explore acquisitions and mergers opportunities on the foundation of its competitive edges, with an aim to strengthening the market and product positions of the Company.

In respect of new product development, the Company expects to complete the process of national technology authentication of 32 projects (including peritoneal dialysis solution) in the second half of the year to obtain the production permits as soon as possible once supplementing documents are completed. The Company will also complete applications for production of 6 items, including new amino acid and glucose injection in dual-chamber bag and salbutamol sulfate aerosol complete the bioequivalence clinical studies in accordance with the original research on 3 projects including the statins rosuvastatin calcium tablets for reducing blood lipid and applied for their production; complete the bioequivalence clinical record on 8 projects including prucalopride succinate tablets: the first drug for curing female constipation. For consistency reviews, the Company will complete the separate review of eanitidine hydrochloride capsules and cefalexin capsules. The clinical works on Lacosamide (previous Type 3.1 new drug) is on-going to strive for completing the application for production next year.

In the second half year of 2017, it is expected that 11 production permits will be obtained for new products, including raw material drugs tenofovir disoproxil fumarate tablets for the treatment of AIDS and hepatitis B, hemofiltration basic solution, hydroxyethyl starch 130 sodium chloride injection and hydroxyethyl starch 200/0.5 sodium chloride injection. It is also expected that the production permits of ambroxol hydrochloride injection in upright soft bags package will be increased. We will strive to obtain the production permits for bulk pharmaceuticals and preparations of several generic drugs in 2018.

By speeding up the development of National and Local Joint Engineering Laboratory project, propelling the establishment of national enterprise technology centre proactively, using various existing research and development platforms and cooperating with domestic tertiary schools and scientific research institutions, we will focus on creating advantages on development of high-end productions technology for microspheres, liposomes, nanocrystals, etc. In addition, the growth of the Group is fully supported by the development of sustained-release tablets for new psychiatric drugs and better target technology for anti-tumour drugs.

In respect of the development of medical materials, we will keep a close eye to the forefront of industry development, continuously develop new types of hemostix rubber stopper and aim to achieve a break-through in exporting to foreign market. Further, we will put a great effort into the market development of rubber stopper for biological products. We will endeavour to obtain registration permits for rubber stopper used for pen-type syringe and pre-filled syringe in the second half of the year. By increasing effort on technological changes, the Company will upgrade the comprehensive supporting function of infusion films product by the technological innovation of adding UV printing on infusion films production lines. We will achieve the upgrade and modification of medical rubber stopper production lines. Leveraging on equipment transformation and automation level enhancement, Jiangsu Best will be built as an excellent medical materials production base in the country to satisfy and adapt to higher requirement of packaging materials for pharmaceuticals.

We are full of confidence on the future development of the Company. Leveraging on the competitive edges on our scale, quality and lean management in the industry, our leading position in the industry of infusion solution products will be further maintained in this challenging market. We are committed to bringing satisfactory return to our investors.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2017 (unaudited)

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2017	2016
	<i>Note</i>	HK\$'000	HK\$'000
Revenue	3	1,325,337	1,109,112
Cost of sales		<u>(597,206)</u>	<u>(559,039)</u>
Gross profit		728,131	550,073
Other net income		2,511	46,779
Selling and distribution costs		(233,594)	(157,257)
General and administrative expenses		<u>(121,755)</u>	<u>(150,209)</u>
Profit from operations		375,293	289,386
Finance income		1,337	1,090
Finance costs		<u>(23,175)</u>	<u>(27,286)</u>
Finance costs – net	4(a)	(21,838)	(26,196)
Share of losses of a joint venture		<u>—</u>	<u>(1,189)</u>
Profit before taxation	4	353,455	262,001
Income tax	5	<u>(65,630)</u>	<u>(51,567)</u>
Profit for the period		<u>287,825</u>	<u>210,434</u>
Other comprehensive income for the period, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency		<u>109,760</u>	<u>(79,557)</u>
Other comprehensive income for the period		<u>109,760</u>	<u>(79,557)</u>
Total comprehensive income for the period		<u>397,585</u>	<u>130,877</u>

		Six months ended 30 June	
		2017	2016
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to:			
Equity shareholders of the Company		288,016	210,428
Non-controlling interests		(191)	6
		<u> </u>	<u> </u>
Profit for the period		<u>287,825</u>	<u>210,434</u>
Total comprehensive income attributable to:			
Equity shareholders of the Company		397,576	130,884
Non-controlling interests		9	(7)
		<u> </u>	<u> </u>
Total comprehensive income for the period		<u>397,585</u>	<u>130,877</u>
Earnings per share			
	6		
— Basic		<u>HK\$0.1014</u>	<u>HK\$0.0747</u>
— Diluted		<u>HK\$0.0999</u>	<u>HK\$0.0742</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2017 (unaudited)

(Expressed in Hong Kong dollars)

		At 30 June 2017		At 31 December 2016	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Property, plant and equipment			2,414,149		2,393,091
Land use rights			253,413		248,771
Intangible assets			445,683		418,509
Deferred tax assets			2,906		3,053
Long-term prepayments and receivables			41,478		1,118
			<u>3,157,629</u>		<u>3,064,542</u>
Current assets					
Inventories		326,347		278,228	
Trade and bills receivables	7	1,016,064		857,387	
Prepayments, deposits and other receivables		95,287		88,680	
Pledged bank deposits and time deposits		32,339		8,201	
Cash and cash equivalents		469,950		447,036	
		<u>1,939,987</u>		<u>1,679,532</u>	
Current liabilities					
Borrowings		925,632		633,126	
Trade payables	8	157,367		173,746	
Advanced receipts from customers		11,346		15,530	
Accruals and other payables		234,586		250,033	
Income tax payable		32,713		23,120	
		<u>1,361,644</u>		<u>1,095,555</u>	
Net current assets			<u>578,343</u>		<u>583,977</u>
Total assets less current liabilities			<u>3,735,972</u>		<u>3,648,519</u>

	<i>Note</i>	At 30 June 2017		At 31 December 2016	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current liabilities					
Borrowings		720,876		934,737	
Deferred tax liabilities		26,265		26,810	
Deferred revenue		2,091		2,550	
			<u>749,232</u>		<u>964,097</u>
NET ASSETS			<u>2,986,740</u>		<u>2,684,422</u>
CAPITAL AND RESERVES					
	9				
Share capital		63,606		63,700	
Reserves		2,915,177		2,612,774	
Total equity attributable to equity shareholders of the Company			2,978,783		2,676,474
Non-controlling interests			<u>7,957</u>		<u>7,948</u>
TOTAL EQUITY			<u>2,986,740</u>		<u>2,684,422</u>

SELECTED NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 23 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

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

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2017.

2. Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. 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 following reportable segments.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below:

	Six months ended 30 June 2017			
	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	1,261,165	64,172	—	1,325,337
Inter-segment revenue	—	68,596	—	68,596
Reportable segment revenue	<u>1,261,165</u>	<u>132,768</u>	<u>—</u>	<u>1,393,933</u>
Operating profit/(loss)/segment results	378,005	5,645	(8,357)	375,293
Finance income	1,171	166	—	1,337
Finance costs	<u>(18,481)</u>	<u>(1,295)</u>	<u>(3,399)</u>	<u>(23,175)</u>
Profit/(loss) before income tax	360,695	4,516	(11,756)	353,455
Income tax	<u>(62,700)</u>	<u>(2,930)</u>	—	<u>(65,630)</u>
Reportable segment profit/(loss) for the period	<u>297,995</u>	<u>1,586</u>	<u>(11,756)</u>	<u>287,825</u>

Six months ended 30 June 2016

	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	1,036,716	72,396	—	1,109,112
Inter-segment revenue	—	40,580	—	40,580
Reportable segment revenue	<u>1,036,716</u>	<u>112,976</u>	<u>—</u>	<u>1,149,692</u>
Operating profit/(loss)/segment results	313,104	9,971	(34,878)	288,197
Finance income	1,073	17	—	1,090
Finance costs	(26,342)	(944)	—	(27,286)
Profit/(loss) before income tax	287,835	9,044	(34,878)	262,001
Income tax	(50,129)	(1,438)	—	(51,567)
Reportable segment profit/(loss) for the period	<u>237,706</u>	<u>7,606</u>	<u>(34,878)</u>	<u>210,434</u>

At 30 June 2017

	Intravenous infusion solution and others <i>HK\$'000</i>	Medical materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	4,712,818	340,385	44,413	5,097,616
Reportable segment liabilities	1,374,474	100,897	635,505	2,110,876

At 31 December 2016

	Intravenous infusion solution and others <i>HK\$'000</i>	Medical materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	4,398,839	331,116	14,119	4,744,074
Reportable segment liabilities	1,261,682	99,002	698,968	2,059,652

4. Profit before taxation

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

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
(a) Finance income and costs		
Financial income:		
— Interest income on bank deposits	(1,337)	(1,090)
Financial costs:		
— Interest expenses of borrowings	23,054	26,984
— Other bank charges	119	1,355
— Net foreign exchange loss	2	2,052
	23,175	30,391
Less: Interest expenses capitalised into qualifying assets*	—	(3,105)
Financial costs	23,175	27,286
Financial costs — net	21,838	26,196

* During the six months ended 30 June 2016, the borrowing costs have been capitalised at a rate of 5.24% per annum.

(b) Other items

Loss/(gain) on disposal of property, plant and equipment	273	(1,091)
Government grants	(2,784)	(45,688)
Depreciation of property, plant and equipment	116,523	111,186
Amortisation of intangible assets	6,574	4,887
Amortisation of land use rights	2,934	3,173
Research and development costs	27,829	21,588

5. Income tax

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Current tax — PRC corporate income tax (“CIT”)	66,573	49,755
Deferred taxation	(943)	1,812
	<u>65,630</u>	<u>51,567</u>

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

Shijiazhuang No. 4 Pharmaceutical Co., Ltd., Jiangsu Best New Medical Material Co., Ltd. (“Jiangsu Best”) and Hebei Guolong Pharmaceutical Co., Ltd. have been certified as High and New Technology Enterprises in 2015, 2014 and 2014, respectively. According to the tax incentives rules of the CIT Law of the People’s Republic of China (the “CIT Law”) for High and New Technology Enterprises, these entities are subject to preferential income tax rate of 15% for three years.

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

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

6. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$288,016,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: HK\$210,428,000) and the weighted average of 2,839,915,000 ordinary shares (six months ended 30 June 2016: 2,815,760,000 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$288,016,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: HK\$210,428,000) and the weighted average shares of 2,883,286,000 shares for the six months ended 30 June 2017 (six months ended 30 June 2016: 2,836,652,000 ordinary shares) after adjusting for the effects of dilutive potential ordinary shares under the Company’s share option scheme, calculated as follows:

(i) *Weighted average number of ordinary shares (diluted)*

	Six months ended 30 June	
	2017 '000	2016 '000
Weighted average number of ordinary shares at 30 June (basic)	2,839,915	2,815,760
Effect of deemed issue of shares under the Company's share option scheme	<u>43,371</u>	<u>20,892</u>
Weighted average number of ordinary shares at 30 June (diluted)	<u><u>2,883,286</u></u>	<u><u>2,836,652</u></u>

7. **Trade and bills receivables**

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

	30 June 2017 HK\$ '000	31 December 2016 HK\$ '000
Within 3 months	863,110	719,969
4 to 6 months	114,890	109,746
7 to 12 months	40,250	31,045
1 to 2 years	<u>2,084</u>	<u>1,017</u>
	1,020,334	861,777
Less: Allowance for doubtful debts	<u>(4,270)</u>	<u>(4,390)</u>
	<u><u>1,016,064</u></u>	<u><u>857,387</u></u>

8. Trade payables

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

	30 June	31 December
	2017	2016
	HK\$'000	HK\$'000
Within 3 months	137,245	157,751
4 to 6 months	12,217	9,761
7 to 12 months	6,086	3,490
1 to 3 years	1,121	1,917
More than 3 years	698	827
	<u>157,367</u>	<u>173,746</u>

9. Capital, reserves and dividends

(a) Dividends

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Interim dividend declared and paid after the interim period, of HK3.0 cents per share (30 June 2016: HK2.5 cents per share)	<u>85,199</u>	<u>71,115</u>

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

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Final dividend proposed after the end of the reporting period of HK3.0 cents per share (30 June 2016: nil)	<u>85,200</u>	<u>—</u>

(b) Cancellation of shares

In January 2017, 4,654,000 ordinary shares were cancelled in accordance with the Companies Law of the Cayman Islands, which were repurchased in December 2016 (six months ended 30 June 2016: 1,018,000 ordinary shares were repurchased and cancelled).

(c) Equity settled share-based transactions

During the six months ended 30 June 2017, no share options were granted or exercised.

During the six months ended 30 June 2016, (i) 122,000,000 share options were granted to Mr. Qu Jiguang at a consideration of HK\$1.00. Each option entitles the holder to subscribe for one ordinary share of the Company with an exercise price of HK\$2.58; and (ii) 15,000,000 share options were exercised by a management staff of the Group, who is not a director of the Company with an exercise price of HK\$1.98 for 15,000,000 ordinary shares in the Company at a total consideration of HK\$29,700,000.

(d) Shares issued upon acquisition of a subsidiary

On 11 April 2016, the Company issued 28,436,000 ordinary shares of the Company to the former owners of Jiangsu Best at the issue price of HK\$2.429 per share as part of the consideration in relation to the acquisition of 100% equity interests in Jiangsu Best.

Further details were respectively set out in the Company's announcements dated 1 September 2015, 29 December 2015, 31 March 2016 and 11 April 2016.

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 six months ended 30 June 2017, the review on the Group's business performance and financial performance are contained in the Chairman's statement under section headed "BUSINESS REVIEW" and in this Management Discussion and Analysis under section headed "FINANCIAL PERFORMANCE REVIEW" respectively. The future development in the Group's business is discussed in the Chairman's statement under section headed "PROSPECTS FOR DEVELOPMENT".

FINANCIAL PERFORMANCE REVIEW

Revenue

The Group's intravenous infusion solution products are mainly manufactured and sold by Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No. 4 Pharma"), a wholly owned subsidiary. There are different forms of packing in intravenous infusion products including Non-PVC Soft Bag, Upright Soft Bag, PP Plastic Bottle and Glass Bottle. The Group's medical materials are mainly manufactured and sold by Jiangsu Best New Medical Material Co., Ltd. ("Jiangsu Best"), which was also a wholly owned subsidiary in the Group.

Majority of the Group's sales are conducted in the PRC and are denominated in Renminbi ("RMB"), which depreciated by approximately 4.6% when translated into Hong Kong dollars ("HK\$") for the six months ended 30 June 2017 as compared with that for corresponding period of last year. Nevertheless, revenue of the Group for the six months ended 30 June 2017 increased by 19.5% from HK\$1,109,112,000 in corresponding period of last year to HK\$1,325,337,000. Among which, revenue from intravenous infusion solution accounted for HK\$1,187,378,000 (30 June 2016: HK\$964,042,000), representing an increase of 23.2% as compared with corresponding period of last year. Among which, revenue from Non-PVC Soft Bag and Upright Soft Bag Infusion Solution were HK\$666,453,000 and HK\$146,307,000 respectively, totalling HK\$812,760,000, an increase of 32.5% as compared with corresponding period of last year and accounted for 68.4% of revenue from intravenous infusion solution; revenue from PP Plastic Bottle Infusion Solution was HK\$257,181,000 an increase of 7.2% as compared with corresponding period of last year and accounted for 21.7% of revenue from intravenous infusion solution; revenue from Glass Bottle Infusion Solution was HK\$117,437,000, an increase of 6.1% as compared with corresponding period of last year and accounted for 9.9% of revenue from intravenous infusion solution.

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

Cost of Sales

The Group's cost of sales increased by 6.8% to HK\$597,206,000 for the six months ended 30 June 2017 as compared to the corresponding period last year of HK\$559,039,000. The cost of direct materials, direct labour and other costs represented approximately 54%, 14% and 32% of the total cost of sales respectively, while their comparative percentages for the corresponding period last year were 53%, 15% and 32% respectively.

Gross Profit Margin

For the six months ended 30 June 2017, the Group recorded a total gross profit of HK\$728,131,000 (30 June 2016: HK\$550,073,000). Overall gross profit margin increased by 5.3 percentage point to 54.9% for the six months ended 30 June 2017, from 49.6% for the corresponding period last year. 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 Net Income

For the six months ended 30 June 2017, the Group's other net income reduced to approximately HK\$2,511,000 (30 June 2016: HK\$46,779,000) due to a smaller sum of government grants.

Selling And Distribution Costs

For the six months ended 30 June 2017, selling and distribution costs amounted to approximately HK\$233,594,000 (30 June 2016: HK\$157,257,000), which mainly consisted of transportation cost of approximately HK\$161,107,000 (30 June 2016: HK\$124,021,000), advertising expenses of approximately HK\$22,051,000 (30 June 2016: HK\$1,851,000), salary expenses for sales and marketing staff of approximately HK\$18,678,000 (30 June 2016: HK\$12,478,400) as well as travelling and other disbursements of approximately HK\$13,406,000 (30 June 2016: HK\$9,797,000).

Selling and distribution expenses increased by 48.5% for the six months ended 30 June 2017 as compared with that of the corresponding period last year mainly due to increases in transportation cost, advertising expenses as well as salary expenses of sales and marketing staff as a result of an expanded sales coverage.

General And Administrative Expenses

For the six months ended 30 June 2017, general and administrative expenses was approximately HK\$121,755,000 (30 June 2016: HK\$150,209,000) which mainly comprised of salaries expenses for the administrative staff of approximately HK\$50,949,000 (30 June 2016: HK\$47,799,000) as well as depreciation and amortisation expenses of approximately HK\$36,662,000 (30 June 2016: HK\$32,291,000).

The decrease of 18.9% in general and administrative expense as compared to that of the corresponding period last year was mainly due to the absence of expense for grant of options during the six months ended 30 June 2017, whereas there was a one-off expense of approximately HK\$26,686,000 incurred in the corresponding period last year.

Profit From Operations

For the six months ended 30 June 2017, the Group's profit from operations amounted to HK\$375,293,000, representing an increase of 29.7% as compared to HK\$289,386,000 of the corresponding period last year, with operating profit margin (defined as profit from operations divided by total revenue) increased to 28.3% as compared to 26.1% of the corresponding period last year mainly due to a better product mix from products with higher profit margins.

Finance Costs

The Group's finance costs amounted to HK\$23,175,000 for the six months ended 30 June 2017 (30 June 2016: HK\$27,286,000), which are mainly related to bank borrowings. The decrease in finance costs by 15.1% was mainly due to the decrease in average bank loan interest rate as compared to the corresponding period last year.

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 (“CIT”) rate in both 2017 and 2016. For the six months ended 30 June 2017, the income tax expense increased by 27.3% to HK\$65,630,000 (30 June 2016: HK\$51,567,000) mainly due to a higher profit before taxation of the Group as compared to the corresponding period last year.

Profit Attributable To Equity Shareholders

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2017 increased by 36.9% to HK\$288,016,000 (30 June 2016: HK\$210,428,000) and the net profit margin (defined as profit attributable to equity shareholders of the Company for the period divided by total revenue) increased to 21.7% from 19.0% for the corresponding period last year.

INTERIM DIVIDEND

The Directors resolved to pay on 21 September 2017 an interim dividend of HK3 cents per share (amounting to a total of approximately HK\$85,199,000) for the six months ended 30 June 2017 (30 June 2016: HK2.5 cents per share) to the shareholders named in the register of members of the Company on 8 September 2017.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 30 June 2017, the cash and cash equivalents aggregated to HK\$469,950,000 (31 December 2016: HK\$447,036,000), mostly are denominated in RMB.

As at 30 June 2017, the carrying amounts of the borrowings amounted to HK\$1,646,508,000 (31 December 2016: HK\$1,567,863,000), of which HK\$809,457,000 (31 December 2016: HK\$758,690,000) and HK\$837,051,000 (31 December 2016: HK\$809,173,000) are denominated in RMB and Hong Kong dollars respectively.

Gearing ratio (defined as bank borrowings less cash and cash equivalents divided by total capital less non-controlling interests) slightly decreased from 29.5% as at 31 December 2016 to 28.3% as at 30 June 2017 mainly due to increase in the Group’s net asset value as at 30 June 2017 as compared to 31 December 2016.

Current ratio (defined as current assets divided by current liabilities) slightly decreased from 1.53 as at 31 December 2016 to 1.42 as at 30 June 2017.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, 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 the six months ended 30 June 2017 was approximately HK\$152,416,000 (30 June 2016: HK\$171,965,000).

CHARGE ON ASSETS

As at 30 June 2017, the Group's land use right with carrying amount of HK\$19,552,000 (31 December 2016: HK\$19,241,000) and the Group's property, plant and equipments with carrying amount of HK\$28,041,000 (31 December 2016: HK\$28,979,000) were pledged as collateral for the Group's borrowings.

FOREIGN EXCHANGE RISK

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

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

1 January 2016	0.83778
30 June 2016	0.85467
1 January 2017	0.89451
30 June 2017	0.86792

MATERIAL ACQUISITIONS AND DISPOSALS

There was no material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2017.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any significant contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has redeemed, purchased or sold any of the Company's listed securities for the six months ended 30 June 2017.

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.

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.

No share option has been granted, exercised or lapsed for the six months ended 30 June 2017.

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

	Six months ended 30 June 2017	Year ended 31 December 2016
Outstanding at the beginning of the period/year	229,000,000	122,000,000
Granted during the period/year	—	122,000,000
Exercised during the period/year	—	(15,000,000)
Lapsed during the period/year	—	—
	<u> </u>	<u> </u>
Outstanding and exercisable at the end of the period/year	<u>229,000,000</u>	<u>229,000,000</u>

As at 30 June 2017, the share options granted under Share Option Scheme and remained outstanding had an weighted average exercise price of approximately HK\$2.30 (31 December 2016: HK\$2.30) and a remaining contractual life of approximately 2.63 years (31 December 2016: 3.13 years).

The details of share options movements during the six months ended 30 June 2017 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 2017	Granted during the period	Exercised during the period	Outstanding at 30 Jun 2017
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>170,832,000</u>	<u>—</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 2017	Granted during the period	Exercised during the period	Outstanding at 30 Jun 2017
19 Oct 2015	HK\$1.98	19 Oct 2015 — 18 Oct 2018	58,168,000	—	—	58,168,000
			<u>58,168,000</u>	<u>—</u>	<u>—</u>	<u>58,168,000</u>

Assuming that all share options outstanding as at 30 June 2017 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 23 August 2017, and at all times during the six months ended 30 June 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”). Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code during the six months ended 30 June 2017.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). During the six months ended 30 June 2017, the Company has complied with all applicable provisions of CG Code with deviation from code provision A.2.1 as set out below.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Board appointed Mr. Qu Jiguang as the Chairman, who was responsible for the leadership and effective running of the Board. Mr. Qu Jiguang has also assumed the role as the chief executive officer of the Company, who was delegated with the responsibilities to lead the management implementing the business strategies of the Group. The Company believes that vesting both roles in Mr. Qu Jiguang will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

INDEPENDENT REVIEW OF AUDITORS

The interim financial report for the six months ended 30 June 2017 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to shareholders.

AUDIT COMMITTEE

The Audit Committee has reviewed and approved the interim financial information contained in the interim report for the six months ended 30 June 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 11 September 2017 to Wednesday, 13 September 2017 (both days inclusive), during which period, no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificate(s) must be lodged with the Company’s branch share registrar and transfer office of the Company 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, 8 September 2017.

PUBLICATION OF THE INTERIM REPORT

The interim report containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on Hong Kong Exchanges and Clearing Limited’s website (www.hkex.com.hk) and the Company’s website (www.ssygroup.com.hk) in due course.

On behalf of the Board, I hereby express our sincere gratitude to our investors and all staff in the Group for their support to the development of the Group.

On behalf of the Board

Qu Jiguang

Chairman

Hong Kong, 23 August 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.