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 2019

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of SSY Group Limited (the "Company"), I hereby present the unaudited interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2019.

I. RESULTS AND DIVIDEND DISTRIBUTION

During the first half of the year, the intravenous infusion solutions industry developed steadily after consolidation with no significant change in industry policy and product price compared to the corresponding period of last year. The Group took full advantage of its own scale, variety, quality, innovation and brand name, achieved growth in quality and quantity for its operational result, and continuously kept its leading position of development in the industry. The dynamics of product research & development and bulk pharmaceuticals projects emerged, which facilitated the Group's market influence and competitiveness to be further consolidated and reinforced.

During the first half of the year, the Group achieved a revenue of HK$2,326 million (or approximately RMB2,008 million), representing an increase of 11.1% (or approximately 17.8% in RMB) compared to the corresponding period of last year, and the gross profit margin increased by 1 percentage point during the same period. The net profit was HK$548 million (or approximately RMB473 million), representing an increase of 23.1% (or approximately 30.4% in RMB) compared to the corresponding period of last year.

The Directors resolved to pay an interim dividend of HK$0.05 per share on 20 September 2019 to the shareholders named in the register of members of the Company on 9 September 2019, which represented a 25% increase compared to the corresponding period of last year. The total amount to be distributed is approximately HK$152 million, representing an increase of 25.8% compared to the corresponding period of last year.

II. BUSINESS REVIEW

	For the six months ended 30 June				
	2019		2018		
	Revenue	**Percentage of revenue**	Revenue	Percentage of revenue	Increase
	HK$'000	***%***	*HK$'000*	*%*	*%*
Intravenous infusion solution and others	**2,244,503**	**96.5**	2,011,191	96.1	11.6
(Including: Non-PVC soft bag & upright soft bag infusion solution	**1,285,192**	**55.3**	1,249,188	59.7	2.9
PP plastic bottle infusion solution	**422,733**	**18.1**	399,252	19.1	5.9
Glass bottle infusion solution	**264,442**	**11.4**	229,990	11.0	15.0
Ampoule injection	**150,739**	**6.5**	36,586	1.7	312.0
Others)	**121,397**	**5.2**	96,175	4.6	26.2
Medical materials	**81,326**	**3.5**	81,575	3.9	(0.3)
Total	**2,325,829**	**100**	2,092,766	100	11.1

(I) Sales of Products

During the first half of 2019, we emphasised on the reinforcement of penetration rate in major provincial markets. We completed market development for over 100 new hospitals, focused on adjustments to product mix, improved the sales growth of therapeutic infusion solutions, and ensured that both production and sales of the Company's products were vigorous. We continued to be the Company with the fastest growth of production and sales volume in the intravenous infusion solutions industry. During the first half of the year, the sales volume of the intravenous infusion solutions, being the dominant products, reached approximately 780 million bottles/bags, representing an increase of approximately 8% compared to the corresponding period of last year, of which the proportion of therapeutic infusion solutions increased to 21.5%, representing an increase of 1.7 percentage points compared to the corresponding period of last year.

Ampoule products had a fast growth. During the first half of the year, the sales of ampoule products amounted to HK$151 million, representing a growth of 312% compared to the corresponding period of last year.

In recent years, access to different markets by newly approved products has been gradually completed with sales promotion for such products being facilitated in different provinces. All-round evaluation that is necessary for market development has been actively conducted for such products, which paved the way for subsequent market access and medical insurance. Of those, the tendering/online tender of Moxifloxacin Sodium Chloride Injection has been completed in 12 provinces and has formed the sales in 16 provinces, achieving a sales of HK$40,170,000 during the first half of 2019. With the progress of market access and development in hospitals in the second half of the year, there will be significant growth in sales and strong momentum in development. Arbidol capsules were listed in the National Medical Insurance Catalogue 2019 and will provide new impetus to the growth in the Company's results.

The export sales to foreign countries kept growing steadily with a growth of 13% in volume during the first half of the year as compared to corresponding period of last year. We completed the export registration procedures and obtained registration certificates for 20 product specifications, including Metronidazole and Sodium Chloride Injection, Ciprofloxacin Lactate Injection, 18AA Amino Acid Injection and Sodium Lactated Ringer's Injection, in 6 countries including Philippines, Bolivia, Uzbekistan and Jamaica, and increased 3 new countries for export.

In respect of medical materials, Jiangsu Best brought its own technological advantages into play in active response to the policy for examination and approval associated with pharmaceutical products. During the first half of the year, there were 4 sets of registration numbers obtained for medical materials of butyl rubber stopper. As far as the policy for national medical reform was concerned, a consistency evaluation for injection was conducted in active concert with the enterprises of pharmaceutical formulation. During the first half of the year, there were 10 types of injection submitted to Centre for Drug Evaluation for consistency evaluation from 4 companies in respect of rubber stopper products.

The Company was consecutively listed in Top 100 enterprises in China Pharmaceutical Industry in year 2017 and year 2018. The Company was ranked 96th in year 2017 and jumped up to 76th in year 2018, achieving an accelerated growth within the industry. The Company was recognized as the "Leading Enterprise in Internationalization of Formulation" for 3 consecutive years in the "2019 Award for Top 100 Internationalized Pharmaceutical Companies" event held by the China Chamber of Commerce for Import & Export of Medicines & Health Products.

(II) Research and Development of New Products

Technological innovation capabilities have been further enhanced, gradually forming a set of comprehensive, scientific and transparent systems for technical innovation. In the first half of year 2019, preparation works for reaccreditations of National Centre for Enterprise Technology, Model Enterprises for National Technology Innovation, National and Local Joint Laboratory and Workstation for Postdoctoral Scientific Research have been started. Application of China's Patent Award and Dominating Enterprise of National Intellectual Property have submitted to National Intellectual Property Administration, which was important for the Company to remain in "the front row of the national team" in terms of technology innovation competence and level.

Achievements from new innovations have been emerging. During the first half of the year, submissions for registration of 60 items were completed, of which 5 items obtained consistency evaluation and 4 items related to raw and auxiliary package assessment. The Company has obtained 14 approvals for production of generic drugs, of which Tirofiban Hydrochloride and Sodium Chloride Injection, a cardiovascular drug clinically used to treat acute coronary syndrome, was viewed as a theraputical drug of great potential in promoting for clinical use and thus a key product for the Company's performance development. Approval for peritoneal dialysis solution series, combining with the Company's existing hemodialysis product portfolio will bring the Company to the market of dialysis products with a nice room for market growth. Hydroxyethyl starch 130 sodium chloride injection will win a place in the blood volume and anaesthetic markets. Fluconazole tablet with its two specifications 50mg & 150mg passing consistency evaluation, of which that of 150mg specification being the first type passing consistency evaluation in the PRC, will bring better market potential into effect in future national product tendering.

(III) Development of Projects

To satisfy the market demand, the Company's newly-built high-value-added infusion production line for large volume and specification such as hemofiltration solution and peritoneal dialysis solution, with GMP certification obtained in May and 20 million bags/year as designed capacity, has already been in production and operation.

By speeding up the construction of the Group's pharmaceutical R&D platform, pilot-run and industrialized ancillary projects, the main building as well as ancillary construction and structures have already been completed and are ready for use by the end of 2019.

The phase-one bulk pharmaceuticals project, which was invested and constructed in Bohai new district under Hebei Guangxiang Pharmaceutical Co., Ltd., has been completed and come into trial-run production. It was planned for an on-spot inspection for GMP certification in August 2019. Since the construction of the project, participation in international market competition and efficiency enhancement has been regarded as a foothold while advanced technological ideas such as bulk pharmaceutical synthesis, reduction, separation and extraction as well as artifices and new devices have been introduced and applied. Innovation and breakthrough, where competitive edges have been created, have been achieved in the key sessions such as quality risk control, ecological environmental protection and safety energy conservation, where the level of automation is leading in the PRC.

III. PROSPECTS FOR DEVELOPMENT

Looking ahead for the second half of the year, the global economy will be more complicated and dynamic. Facing numerous uncertain factors such as national medical payment system, "4+7" centralised procurement and trade conflicts, the Group will keep its composure, maintain its dominant products in the leading position of intravenous infusion solution market, expand the market share of therapeutic infusion solution products, actively release bulk pharmaceuticals' production capacity, enhance the utilisation rate of ampoule production lines, keep the progress of implementation of innovative drugs and consistency evaluations, improve continously the business and product mix as well as raise the expectation on earnings.

Regarding the research and development of new products, the Company will adhere to the new products development idea of "combining generic drugs and innovative drugs" with injection as the basis, reinforcing the Company's technological and product advantages in the intravenous infusion solutions industry of China. Besides, we will comprehensively promote the development of new products for therapeutic injections and focus on various fields including treatment of chronic disease, circulatory systems, emergency anaesthesia drugs, antipyretic and analgesic drugs as well as the new anti-infective therapy. We expect to obtain approximately 6 production approvals for injection and oral formulation in the second half of this year.

The Group intends to gradually create a product series of high-end anti-infective intravenous infusion solutions focusing on Moxifloxacin Hydrochloride Sodium Chloride Injection as well as Levornidazole and Sodium Chloride Injection & Linezolid and Glucose Injection (type 2.1 innovative drug in China awaiting approval), and create a product series in the respiratory field including Bromhexine Hydrochloride Injection, Ambroxol Hydrochloride products and Doxofylline for Injection. Hemodialysis and peritoneal product series will form the Company's product portfolio in the field of kidney disease and dialysis. Through developing new microspheres, Liposomal High-end Injection, Lyophilized Powder Injection, Dualchamber Bag, Multi-chamber Bag and Aseptic Filling Injection, the Company gradually establishes its leading position in injections in terms of high-end drug delivery system and innovative packaging form. For the innovative drugs, there are nearly a hundred compounds under research. Among of which, the phase I clinical trial of type 1 anti-tumor new drug NP-01 will commence in January 2020. Currently, 3 highly active target compounds are selected from our self-developed series of compound for treating pulmonary hypertension. Meanwhile, a preliminary animal experimentation of new type of anti-epileptic compound QO-83 indicates a good potential of drug-formation. For the development of AND-9 and EH-201 innovative drug under type 1 chemical drug and Miriplatin innovative drug under type 2 chemical drug, the pharmacodynamics study and safety assessment work have started as scheduled. We will complete the registration for the study on terbutaline spray and explore the market in the area of new respiratory formulations. Meanwhile, we will complete the development for registration of the WHO recommended oral rehydration salts III for children, and gradually entered the children's oral medication market. We will also put larger effort in the development of innovative drugs which are not yet meeting clinical need, in order to create the third growth pole for the Company's oral formulation.

Jiangsu Best will try its best to continue following up the progress of consistency evaluation for injections in the second half of the year, accelerate the submission of registration numbers for the pen syringe made of butyl rubber stopper and laminated rubber stopper, and strive to obtain the registration number for medical materials.

The phase-one bulk pharmaceuticals project under Hebei Guangxiang Pharmaceutical Co., Ltd. will complete on-spot inspection for GMP certification in the second half of the year. While establishing domestic and international sales channels, we will speed up releasing production capacity, put a great effort in establishing quality and cost advantages, result in the mass production of bulk pharmaceuticals including caffeine, theophylline, aminophylline, metronidazole and nifedipine, and foster a growth pole for the Group's new development.

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2019 (unaudited)

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2019	2018
			(Note)
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**2,325,829**	2,092,766
Cost of sales		**(835,573)**	(772,557)
Gross profit		**1,490,256**	1,320,209
Other net income		**8,742**	5,120
Selling and distribution costs		**(651,777)**	(629,609)
General and administrative expenses		**(175,333)**	(150,608)
Profit from operations		**671,888**	545,112
Finance income		**9,331**	5,288
Finance costs		**(24,894)**	(27,323)
Finance costs — net	*4(a)*	**(15,563)**	(22,035)
Profit before taxation	*4*	**656,325**	523,077
Income tax	*5*	**(105,709)**	(76,385)
Profit for the period		**550,616**	446,692
Other comprehensive income for the period, net of nil tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency		**(31,576)**	(57,692)
Other comprehensive income for the period		**(31,576)**	(57,692)
Total comprehensive income for the period		**519,040**	389,000

	Note	Six months ended 30 June 2019 HK$'000	2018 (Note) HK$'000
Profit attributable to:			
Equity shareholders of the Company		**548,244**	445,545
Non-controlling interests		**2,372**	1,147
Profit for the period		**550,616**	446,692
Total comprehensive income attributable to:			
Equity shareholders of the Company		**517,650**	392,674
Non-controlling interests		**1,390**	(3,674)
Total comprehensive income for the period		**519,040**	389,000
Earnings per share	*6*		
Basic		**HK$0.1817**	HK$0.1497
Diluted		**HK$0.1799**	HK$0.1468

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated . See note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019 (unaudited)

(Expressed in Hong Kong dollars)

		At 30 June 2019		At 31 December 2018 (Note)	
	Note	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*
Non-current assets					
Property, plant and equipment			**3,103,745**		2,879,018
Land use rights	*2*		**—**		272,004
Right-of-use assets	*2*		**272,805**		—
Intangible assets			**505,249**		499,056
Deferred tax assets			**8,994**		9,139
Fixed deposits			**284,201**		114,129
			4,174,994		3,773,346
Current assets					
Inventories		**446,237**		422,504	
Trade and bills receivables	*7*	**1,649,849**		1,271,424	
Prepayments, deposits and other receivables		**245,779**		216,081	
Pledged bank deposits and time deposits		**206,364**		252,671	
Cash and cash equivalents		**583,530**		902,062	
		3,131,759		3,064,742	
Assets held for sale		**42,340**		42,657	
		3,174,099		3,107,399	
Current liabilities					
Borrowings		**656,838**		448,383	
Trade payables	*8*	**175,375**		148,505	
Contract liabilities		**18,826**		32,659	
Lease liabilities	*2(d)*	**3,402**		—	
Accruals and other payables		**663,916**		720,031	
Income tax payable		**43,117**		49,375	
		1,561,474		1,398,953	
Net current assets			**1,612,625**		1,708,446
Total assets less current liabilities			**5,787,619**		5,481,792

		At 30 June 2019		At 31 December 2018 *(Note)*	
	Note	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*
Non-current liabilities					
Borrowings		**916,730**		1,046,119	
Lease liabilities	*2(d)*	**1,567**		—	
Deferred tax liabilities		**17,214**		17,974	
Deferred revenue		**41,031**		39,453	
			976,542		1,103,546
NET ASSETS			**4,811,077**		4,378,246
CAPITAL AND RESERVES	*9*				
Share capital			**67,488**		67,088
Reserves			**4,587,997**		4,171,344
Total equity attributable to equity shareholders of the Company			**4,655,485**		4,238,432
Non-controlling interests			**155,592**		139,814
TOTAL EQUITY			**4,811,077**		4,378,246

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under the approach, comparative information is not restated. See note 2.

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 26 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 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 2018 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 2018 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. The Company's annual consolidated financial statements for the year ended 31 December 2018 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 13 March 2019.

2. Changes in accounting policies

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

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented 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.

HKFRS 16, ***Leases***

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

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach. Comparative information has not been restated and continues to be reported under HKAS 17. The Group has performed an assessment on the impact of the adoption of IFRS 16 and concluded that no adjustment to the opening balance of equity at 1 January 2019 was recognised.

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

(a) Changes in the accounting policies

(i) New definition of a lease

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

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

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

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

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

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

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

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

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

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

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

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

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

The Group presents right-of-use assets that do not meet the definition of investment property and lease liabilities separately in the statement of financial position.

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

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

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	At 30 June 2019	At 1 January 2019
	HK$'000	*HK$'000*
Included in "Right-of-use assets":		
Properties leased for own use, carried at depreciated cost	**4,991**	6,659
Land use rights, carried at depreciated cost	**267,814**	272,004
	272,805	278,663

(d) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Within 1 year	**3,402**	**3,581**	3,332	3,585
After 1 year but within 2 years	**1,103**	**1,169**	2,408	2,519
After 2 years but within 5 years	**464**	**479**	919	961
	1,567	**1,648**	3,327	3,480
	4,969		6,659	
Less: total future interest expenses		**(260)**		(406)
Present value of lease liabilities		**4,969**		6,659

(e) Impact on the financial result and cash flows of the Group

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

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

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the Group's financial result and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

	2019				2018
	Amounts reported under HKFRS 16 (A)	**Add back: HKFRS 16 depreciation and interest expense (B)**	**Deduct: Estimated amounts related to operating lease as if under HKAS 17 *(note 1)* *(C)***	**Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C)**	Compared to amounts reported for 2018 under HKAS 17
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Financial result for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	**671,888**	**1,665**	**(1,800)**	**671,753**	545,112
Finance costs — net	**(15,563)**	**146**	**—**	**(15,417)**	(22,035)
Profit before taxation	**656,325**	**1,811**	**(1,800)**	**656,336**	523,077
Profit for the period	**550,616**	**1,811**	**(1,800)**	**550,627**	446,692

	2019			2018
	Amounts reported under HKFRS 16 (A)	**Estimated amounts related to operating leases as if under HKAS 17** ***(notes 1 & 2)*** **(B)**	**Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B)**	Compared to amounts reported under HKAS 17
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	**277,947**	**(1,800)**	**276,147**	616,654
Net cash generated from operating activities	**145,172**	**(1,800)**	**143,372**	502,688
Capital element of lease rentals paid	**(1,654)**	**1,654**	**—**	—
Interest element of lease rentals paid	**(146)**	**146**	**—**	—
Net cash used in financing activities	**(6,104)**	**1,800**	**(4,304)**	(368,721)

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

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

3. Revenue and segment reporting

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

(a) Disaggregation of revenue

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregation by major products or service lines		
— Sales of pharmaceutical products	**2,234,361**	2,001,654
— Sales of medical materials	**81,326**	81,575
— Services income	**4,521**	7,133
— Sales of raw materials and by-products	**5,621**	2,229
	2,325,829	2,092,591
Revenue from other sources		
— Rental income	**—**	175
	2,325,829	2,092,766
Disaggregated by geographical location of customers		
— The PRC (place of domicile)	**2,251,646**	2,028,532
— Other countries	**74,183**	64,234
	2,325,829	2,092,766

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

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

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

	Six months ended 30 June 2019			
	Intravenous infusion solution and others *HK$'000*	**Medical materials** *HK$'000*	**Unallocated** *HK$'000*	**Total** *HK$'000*
Disaggregated by timing of revenue recognition				
Point in time	**2,239,982**	**81,326**	**—**	**2,321,308**
Over time	**4,521**	**—**	**—**	**4,521**
Revenue from external customers	**2,244,503**	**81,326**	**—**	**2,325,829**
Inter-segment revenue	**6,668**	**84,421**	**—**	**91,089**
Reportable segment revenue	**2,251,171**	**165,747**	**—**	**2,416,918**
Operating profit or loss/segment results	**674,439**	**13,932**	**(16,483)**	**671,888**
Finance income	**9,217**	**67**	**47**	**9,331**
Finance costs	**(12,443)**	**(462)**	**(11,989)**	**(24,894)**
Profit/(loss) before income tax	**671,213**	**13,537**	**(28,425)**	**656,325**
Income tax	**(102,279)**	**(3,430)**	**—**	**(105,709)**
Reportable segment profit/(loss) for the period	**568,934**	**10,107**	**(28,425)**	**550,616**

	Six months ended 30 June 2018 *(Note)*			
	Intravenous infusion solution and others	Medical materials	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Disaggregated by timing of revenue recognition				
Point in time	2,003,883	81,575	—	2,085,458
Over time	7,308	—	—	7,308
Revenue from external customers	2,011,191	81,575	—	2,092,766
Inter-segment revenue	11,763	84,076	—	95,839
Reportable segment revenue	2,022,954	165,651	—	2,188,605
Operating profit or loss/segment results	552,635	12,354	(19,877)	545,112
Finance income	5,157	131	—	5,288
Finance costs	(15,634)	(805)	(10,884)	(27,323)
Profit/(loss) before income tax	542,158	11,680	(30,761)	523,077
Income tax	(73,347)	(3,038)	—	(76,385)
Reportable segment profit/(loss) for the period	468,811	8,642	(30,761)	446,692

	At 30 June 2019			
	Intravenous infusion solution and others	**Medical materials**	**Unallocated**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Reportable segment assets	**6,943,795**	**350,865**	**54,433**	**7,349,093**
Reportable segment liabilities	**1,716,883**	**24,083**	**797,050**	**2,538,016**

	At 31 December 2018 *(Note)*			
	Intravenous infusion solution and others	Medical materials	Unallocated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Reportable segment assets	6,460,123	364,666	55,956	6,880,745
Reportable segment liabilities	1,645,444	59,772	797,283	2,502,499

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

4. Profit before taxation

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

(a) Finance income and costs

	Six months ended 30 June	
	2019	2018 *(Note)*
	HK$'000	*HK$'000*
Finance income:		
— Interest income on bank deposits	**(8,943)**	(4,533)
— Net foreign exchange gain	**(388)**	(755)
Finance income	**(9,331)**	(5,288)
Finance costs:		
— Interest expense of borrowings	**31,106**	27,323
Less: Interest expense capitalised into qualifying assets*	**(6,212)**	—
Finance costs	**24,894**	27,323
Finance costs — net	**15,563**	22,035

* During the six months ended 30 June 2019, the borrowing costs have been capitalised at a rate of 4.9% per annum.

(b) Other items

	Six months ended 30 June	
	2019	2018
		(Note)
	HK$'000	*HK$'000*
Research and development costs (other than amortisation costs)	**67,322**	63,056
Less: Costs capitalised into intangible assets	**(16,028)**	(16,895)
	51,294	46,161
Gain on disposal of property, plant and equipment	**(474)**	(1,902)
Government grants	**(6,158)**	(3,218)
Depreciation charges		
— owned property, plant and equipment	**125,699**	131,204
— right-of-use assets	**4,844**	—
Amortisation of land use rights	**—**	3,781
Amortisation of intangible assets	**8,386**	9,542

Note:

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

5. Income tax

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Current tax — PRC corporate income tax ("CIT")	**106,302**	81,466
Deferred taxation	**(593)**	(5,081)
	105,709	76,385

Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No.4"), Jiangsu Best New Medical Material Co., Ltd. ("Jiangsu Best"), Hebei Guolong Pharmaceutical Co., Ltd. and Hebei Hanlin Biotechnology Co., Ltd. have been certified as High and New Technology Enterprises ("HNTE") in 2018, 2017, 2017 and 2018, respectively. According to the tax incentives rules of the CIT Law of the People's Republic of China (the "CIT Law") for High and New Technology Enterprises, these entities are subject to preferential income tax rate of 15% for three years. The additional deduction of research and development expenditures have been increased from 50% to 75%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018.

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

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

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$548,244,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$445,545,000) and the weighted average of 3,017,561,000 ordinary shares (six months ended 30 June 2018: 2,976,562,000 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$548,244,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: HK$445,545,000) and the weighted average number of 3,048,315,000 ordinary shares for the six months ended 30 June 2019 (six months ended 30 June 2018: 3,034,140,000 ordinary shares) after adjusting for the effects of dilutive potential ordinary shares under the Company's share option scheme, calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Weighted average number of ordinary shares at 30 June (basic)	**3,017,561**	2,976,562
Effect of deemed issue of shares under the Company's share option scheme	**30,754**	57,578
Weighted average number of ordinary shares at 30 June (diluted)	**3,048,315**	3,034,140

7. Trade and bills receivables

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

	30 June 2019	31 December 2018
	HK$'000	*HK$'000*
Within 3 months	**1,224,275**	986,536
4 to 6 months	**305,900**	225,455
7 to 12 months	**123,531**	65,260
1 to 2 years	**2,006**	61
Less: Loss allowance	**(5,863)**	(5,888)
	1,649,849	1,271,424

As at 30 June 2019, bills receivable of HK$214,567,000 (31 December 2018: HK$99,518,000) represent short-term bank acceptance notes receivable that entitle the Group to receive the full face amount from the banks at maturity, which generally ranges from 3 to 12 months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivable. The Group from time to time endorses bills receivable to suppliers in order to settle payables.

As at 30 June 2019, the Group endorsed certain bank acceptance bills to suppliers for settling payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than twelve months from the end of the reporting period. In the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations, should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of these bills are of good credit quality and non-settlement of these bills by the issuing banks on maturity is not probable. As at 30 June 2019, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to approximately HK$464 million (31 December 2018: HK$544 million). Bills receivable were therefore derecognised.

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 2019	31 December 2018
	HK$'000	*HK$'000*
Within 3 months	**153,656**	141,222
4 to 6 months	**18,130**	5,157
7 to 12 months	**2,331**	1,088
1 to 3 years	**579**	433
More than 3 years	**679**	605
	175,375	148,505

9. Capital, reserves and dividends

(a) Dividends

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

	Six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
Interim dividend declared and paid after the interim period, of HK5.0 cents per share (30 June 2018: HK4.0 cents per share)	**151,701**	120,561

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	
	2019	2018
	HK$'000	*HK$'000*
Final dividend proposed after the end of the reporting period of HK5.0 cents per share (30 June 2018: HK4.0 cents per share)	**150,701**	120,561

(b) Equity settled share-based transactions

During the six months ended 30 June 2019, a total of 20,000,000 share options were exercised by one director of the Company, with exercise price of HK$2.58 at a total consideration of HK$51,600,000. As at 30 June 2019, the total number of share options outstanding and exercisable was 32,000,000 (31 December 2018: 52,000,000).

During the six months ended 30 June 2018, a total of 142,368,000 share options were exercised by three directors of the Company and two management staffs, with exercise prices of HK$1.98 or HK$2.58 at a total consideration of HK$323,888,000.

(c) Capital management

The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. The adoption of HKFRS 16 does not have a material impact on the Group's total debt and gearing ratio and the Group's capital management policies.

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 2019, the review on the Group's business performance and financial performance are contained in the Chairman's statement under section headed "BUSINESS REVIEW" and in this Management Discussion and Analysis under section headed "FINANCIAL PERFORMANCE REVIEW" respectively. The future development in the Group's business is discussed in the Chairman's statement under section headed "PROSPECTS FOR DEVELOPMENT".

FINANCIAL PERFORMANCE REVIEW

Revenue

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

Majority of the Group's sales are conducted in the PRC and are denominated in Renminbi ("RMB"), which depreciated by approximately 5.7% when translated into Hong Kong dollars ("HK$") for the six months ended 30 June 2019 as compared with that for corresponding period of last year. Nevertheless, as a result of the increase in sales volumes of intravenous infusion solutions and ampoule injections, revenue of the Group for the six months ended 30 June 2019 increased by 11.1% from HK$2,092,766,000 in corresponding period of last year to HK$2,325,829,000. Among which, revenue from intravenous infusion solution accounted for HK$1,972,367,000 (30 June 2018: HK$1,878,430,000), representing an increase of 5.0% as compared with corresponding period of last year. Among which, revenue from Non-PVC Soft Bag and Upright Soft Bag Infusion Solution were HK$955,051,000 and HK$330,141,000 respectively, totalling HK$1,285,192,000, an increase of 2.9% as compared with corresponding period of last year and accounted for 65.2% of revenue from intravenous infusion solution; revenue from PP Plastic Bottle Infusion Solution was HK$422,733,000 an increase of 5.9% as compared with corresponding period of last year and accounted for 21.4% of revenue from intravenous infusion solution; revenue from Glass Bottle Infusion Solution was HK$264,442,000, an increase of 15.0% as compared with corresponding period of last year and accounted for 13.4% of revenue from intravenous infusion solution. Revenue from ampoule injections accounted for HK$150,739,000 (30 June 2018: HK$36,586,000), representing a significant increase of 312.0% as compared with corresponding period of 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 Non-PVC Soft Bag and Upright Soft Bag infusion solution as well as increasing the proportion of therapeutic infusion solution among its revenue. The Group will also keep expanding its production in ampoule injections to drive revenue growth.

Revenue from medical materials products contributed HK$81,326,000 (30 June 2018: HK$81,575,000) to the Group, representing a slight decrease of 0.3% as compared with corresponding period of last year.

Cost of sales

The Group's cost of sales increased by 8.2% to HK$835,573,000 for the six months ended 30 June 2019 as compared to the corresponding period last year of HK$772,557,000. The cost of direct materials, direct labour and other costs represented approximately 60.3%, 13.8% and 25.9% of the total cost of sales respectively, while their comparative percentages for the corresponding period last year were 57.7%, 15.3% and 27.0% respectively.

Gross profit margin

For the six months ended 30 June 2019, the Group recorded a total gross profit of HK$1,490,256,000 (30 June 2018: HK$1,320,209,000). Overall gross profit margin increased by 1.0 percentage point to 64.1% for the six months ended 30 June 2019 from 63.1% 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 2019, the Group's other net income increased to approximately HK$8,742,000 (30 June 2018: HK$5,120,000) which mainly represented government grants.

Selling and distribution costs

For the six months ended 30 June 2019, selling and distribution costs amounted to approximately HK$651,777,000 (30 June 2018: HK$629,609,000), which mainly consisted of transportation cost of approximately HK$212,620,000 (30 June 2018: HK$308,922,000), marketing service expenses of approximately HK$263,178,000 (30 June 2018: HK$167,130,000), advertising expenses of approximately HK$116,919,000 (30 June 2018: HK$84,179,000) as well as salary expenses for sales and marketing staff of approximately HK$30,158,000 (30 June 2018: HK$25,378,000).

Selling and distribution expenses increased by 3.5% for the six months ended 30 June 2019 as compared with corresponding period of last year. Such increase is mainly caused by increases in marketing service and advertising expenses due to the Group's continuous expansion in sales and product coverage.

General and administrative expenses

For the six months ended 30 June 2019, general and administrative expenses was approximately HK$175,333,000 (30 June 2018: HK$150,608,000) which mainly comprised of salaries expenses for administrative staff of approximately HK$75,474,000 (30 June 2018: HK$52,451,000) as well as depreciation and amortisation expenses of approximately HK$43,349,000 (30 June 2018: HK$44,933,000).

The increase of 16.4% in general and administrative expense as compared to that of the corresponding period last year was mainly due to the Group's overall expansion in operations of Shijiazhuang No.4 Pharma and more staff in preparation for the new bulk pharmaceuticals project.

Profit from operations

For the six months ended 30 June 2019, the Group's profit from operations amounted to HK$671,888,000, representing an increase of 23.3% as compared to HK$545,112,000 of the corresponding period last year, with the operating profit margin (defined as profit from operations divided by total revenue) increased to 28.9% from 26.0% of the corresponding period last year.

Finance costs

The Group's finance costs decreased by 8.9% to HK$24,894,000 for the six months ended 30 June 2019 (30 June 2018: HK$27,323,000), which represented interest expenses of bank borrowings after interest capitalisation.

Income tax

The Group believes that Shijiazhuang No. 4 Pharma, Jiangsu Best, Hebei Guolong Pharmaceutical Co., Ltd. and Hebei Hanlin Biotechnology Co., Ltd. were qualified as the High and New Technology Enterprise and thus subject to a 15% preferential income tax in the PRC for both 2019 and 2018. For the six months ended 30 June 2019, the income tax expense increased by 38.4% to HK$105,709,000 (30 June 2018: HK$76,385,000) mainly due to a higher profit before taxation of the Group and a withholding tax incurred by dividend distribution made out of the PRC subsidiary.

Profit attributable to equity shareholders

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2019 increased by 23.1% to HK$548,244,000 (30 June 2018: HK$445,545,000), with net profit margin (defined as profit attributable to equity shareholders of the Company for the period divided by total revenue) increased to 23.6% from 21.3% of the corresponding period last year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 30 June 2019, the Group's cash and cash equivalents aggregated to HK$583,530,000 (31 December 2018: HK$902,062,000), mostly were denominated in RMB.

As at 30 June 2019, the Group's bank borrowings amounted to HK$1,573,568,000 (31 December 2018: HK$1,494,502,000), comprising HK$736,649,000 (31 December 2018: HK$639,123,000) of borrowings denominated in RMB and HK$836,919,000 (31 December 2018: HK$855,379,000) in Hong Kong dollars. Except for a RMB79,000,000 bank borrowing which is repayable over 5 years, all of the Group's bank borrowings were repayable within 5 years, mostly bearing interest at floating rate.

Gearing ratio (defined as bank borrowings less cash and cash equivalents divided by total capital less non-controlling interests) increased from 12.3% as at 31 December 2018 to 17.5% as at 30 June 2019. Current ratio (defined as current assets divided by current liabilities) decreased from 2.22 as at 31 December 2018 to 2.03 as at 30 June 2019. For better cash management, the Group's fixed deposits as non-current assets significantly increased by 149.0% from HK$114,129,000 as at 31 December 2018 to HK$284,201,000 as at 30 June 2019, which were not classified as cash and cash equivalents in calculating gearing ratio and were not current assets in calculating current ratio.

As at 30 June 2019, the Group's total capital commitments outstanding but not provided for was HK$340,395,000 (31 December 2018: HK$505,649,000).

EMPLOYEES AND REMUNERATION POLICY

As its business operation keeps growing, the Group had a need to strengthen its workforce to approximately 4,000 employees as at 30 June 2019 (approximately 3,700 employees as at 30 June 2018), most of whom were based in the PRC. The number of workers employed by the Group varies from time to time depending on its needs. The remuneration policy of employees other than executive Directors and senior management is based on industry practice and is periodically reviewed by executive Directors or senior management. Apart from social insurance and in-house training programmes, other kinds of remuneration such as discretionary bonuses, share options under the Share Option Scheme and shares granted under the Restricted Share Award Scheme may be awarded to employees according to the assessment of individual performance.

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

The total remuneration cost incurred by the Group for the six months ended 30 June 2019 was approximately HK$221,000,000 (30 June 2018: HK$195,689,000).

CHARGE ON ASSETS

As at 30 June 2019, the Group's right-of-use assets (previously presented as land use right) with carrying amount of HK$71,866,000 (31 December 2018: HK$72,984,000) and the Group's property, plant and equipment with carrying amount of HK$26,660,000 (31 December 2018: HK$28,273,000) were pledged as collateral for the Group's bank borrowings.

FOREIGN EXCHANGE RISK

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

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

1 January 2018	0.83591
30 June 2018	0.84310
1 January 2019	0.87620
30 June 2019	0.87966

MATERIAL ACQUISITIONS AND DISPOSALS

There was no material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2019.

CONTINGENT LIABILITIES

As at 30 June 2019, 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 2019.

SHARE OPTION SCHEME

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

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

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

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

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

On 15 April 2016, the Company granted 122,000,000 share options to Mr. Qu Jiguang, the Chairman and the CEO of the Company, under Share Option Scheme, representing about 4.31% of the issued share capital as at the date immediately before share options were granted. The exercise price was HK$2.58. The exercisable period was from 15 April 2016 to 14 April 2021. Such grant of share options was approved by the independent shareholders at the annual general meeting held on 27 May 2016. During the six months ended 30 June 2019, a total of 20,000,000 (year ended 31 December 2018: 70,000,000) share options were exercised by Mr. Qu Jiguang and, as a result, a total of 20,000,000 (year ended 31 December 2018: 70,000,000) ordinary shares of the Company was issued.

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

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

	Six months ended 30 June 2019	Year ended 31 December 2018
Outstanding at the beginning of the period/year	**52,000,000**	194,368,000
Granted during the period/year	**—**	—
Exercised during the period/year	**(20,000,000)**	(142,368,000)
Lapsed during the period/year	**—**	—
Outstanding and exercisable at the end of the period/year	**32,000,000**	52,000,000

The details of share options movements during the six months ended 30 June 2019 are shown as follows:

				Number of share options			
Name of Director	Date of grant	Exercise price per share	Exercisable period	Outstanding at 1 Jan 2019	Granted during the period	Exercised during the period	Outstanding at 30 Jun 2019
Mr. Qu Jiguang	15 Apr 2016	HK$2.58	15 Apr 2016 — 14 Apr 2021	52,000,000	—	(20,000,000)	32,000,000

As at 30 June 2019, the share options granted under Share Option Scheme and remained outstanding had an weighted average exercise price of approximately HK$2.58 (31 December 2018: HK$2.58) and a remaining contractual life of approximately 1.79 years (31 December 2018: 2.29 years). Assuming that all share options outstanding as at 30 June 2019 are exercised, the Company will receive proceeds of HK$82,560,000.

RESTRICTED SHARE AWARD SCHEME

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

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

Up to the date of this interim report, no shares have been purchased by the trustee and no shares have been awarded to any Selected Participants pursuant to the Restricted Share Award Scheme since the Adoption Date.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the latest practicable date, being 26 August 2019, and at all times during the six months ended 30 June 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code during the six months ended 30 June 2019.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted 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 2019, 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 2019 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group's interim report for the six months ended 30 June 2019.

INTERIM DIVIDEND

The Directors resolved to pay on 20 September 2019 an interim dividend of HK5 cents per share (30 June 2018: HK4 cents per share) amounting to a total of approximately HK$151,701,000 for the six months ended 30 June 2019 to the shareholders named in the register of members of the Company on 9 September 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 10 September 2019 to Friday, 13 September 2019 (both days inclusive), during which period, no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Monday, 9 September 2019.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the Company's website (www.ssygroup.com.hk) and on the website of Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The interim report containing all the information required by the Listing Rules will be available on the above websites and will be despatched to the shareholders in due course.

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

On behalf of the Board
Qu Jiguang
Chairman

Hong Kong, 26 August 2019

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