



石四藥集團有限公司

SSY Group Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2005)

2020
Annual Report

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CORPORATE INFORMATION

STOCK CODE

2005

EXECUTIVE DIRECTORS

Mr. Qu Jiguang (*Chairman*)
Mr. Wang Xianjun
Mr. Su Xuejun

NON-EXECUTIVE DIRECTOR

Mr. Feng Hao

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

COMPANY SECRETARY

Mr. Chow Hing Yeung

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 4902-03, 49th Floor
Central Plaza, 18 Harbour Road
Wanchai, Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Wang Xianjun
Mr. Chow Hing Yeung

AUDIT COMMITTEE

Mr. Chow Kwok Wai (*Chairman*)
Mr. Wang Yibing
Mr. Leung Chong Shun

REMUNERATION COMMITTEE

Mr. Leung Chong Shun (*Chairman*)
Mr. Wang Yibing
Mr. Chow Kwok Wai

NOMINATION COMMITTEE

Mr. Wang Yibing (*Chairman*)
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited
Suite 3204, Unit 2A
Block 3, Building D
P.O. Box 1586, Gardenia Court
Camana Bay, Grand Cayman
KY1-1100, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China
Bank of China (Hong Kong)
Bank of Communications
BNP Paribas
China CITIC Bank International
China Construction Bank
Citibank (China)
Hang Seng Bank
Hongkong and Shanghai Banking Corporation
Industrial and Commercial Bank of China

LEGAL ADVISER TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

AUDITOR

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

WEBSITE

<http://www.ssygroup.com.hk>

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of SSY Group Limited (the "Company"), I hereby present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2020.

I. RESULT AND DIVIDEND DISTRIBUTION

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

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

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

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

II. BUSINESS REVIEW

(1) Sales of Products

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

CHAIRMAN'S STATEMENT

II. BUSINESS REVIEW (CONTINUED)

(1) Sales of Products (Continued)

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

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

In respect of bulk pharmaceuticals business, due to the epidemic in year 2020, customer certification was slow and exports of products was below expectation. However, through continuous optimization and enhancement of production processes, preliminary production cost advantage has revealed, product mix became increasingly rich and foundation of utilising production capacity became ready. A new landscape is gradually formed with major bulk pharmaceuticals including Moxifloxacin Hydrochloride, Hydroxyethyl starch 130 and 40, Azithromycin, Caffeine, Theophylline, Aminophylline and Metronidazole as foundation, and promising new products including Dexmedetomidine Hydrochloride, Ipratropium Bromide, Lurasidone Hydrochloride, Blonanserin, Cinacalcet Hydrochloride, Linezolid, L-malic acid, Terbutaline Sulfate, Epalrestat, Pentoxifylline, Rosuvastatin Calcium, Pitavastatin Calcium, Argatroban, Lacosamide, Ornidazole, Levornidazole and Doxofylline which are high value-added specialised bulk pharmaceuticals as coordinating development.

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

CHAIRMAN'S STATEMENT

II. BUSINESS REVIEW (CONTINUED)

(1) Sales of Products (Continued)

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

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

(2) Research and Development of New Products

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

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

Taking into account of existing and potential markets, the Group is persistent in pushing forward the research and development of innovative drugs and generic drugs as well as the consistency evaluation of generic drugs, and achieved results as expected. Type I innovative drug NP-01, the Group's first innovative drug, has received approval for clinical trial and its clinical testing research have already commenced, demonstrating the Group's transformation from generic drug research and development to a new stage of combination of generic and innovative drugs.

CHAIRMAN'S STATEMENT

II. BUSINESS REVIEW (CONTINUED)

(2) Research and Development of New Products (Continued)

During year 2020, 6 products with 7 specifications, including Prucalopride Succinate tablet (1mg, 2mg), Cefdinir capsule (0.1mg), Rosuvastatin Calcium Tablet (10mg), Doxofylline Injection, Ropivacaine Hydrochloride Injection and Moxifloxacin Hydrochloride & Sodium Chloride Injection, passed the Consistency Evaluation of Quality and Efficacy of Generic Drugs in the PRC or were regarded as passing the consistency evaluation. Among which, Doxofylline Injection and Ropivacaine Hydrochloride Injection were the first one of these products passing the consistency evaluation, while Cefdinir capsule was the second one of such product passing the consistency evaluation. Doxofylline Injection has a new type of packaging in PP ampoule instead of the original glass ampoule for better convenience and safety, and is expected to become the most competitive product in the anti-asthmatic drug market. Ropivacaine Hydrochloride Injection is a new type of local anesthetic drug being the first one of such product passing through consistency evaluation, such that demand of such drug in the PRC will be well satisfied and replacement of original drugs will be achievable. The approved production of various new solid preparations such as Cefdinir capsule, Prucalopride Succinate tablet and Rosuvastatin Calcium Tablet will push forward the accelerating growth of the Company's oral preparations business segment, and facilitate the consistent improvement and optimisation of the Company's product mix.

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

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

III. PROSPECTS FOR DEVELOPMENT

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

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

CHAIRMAN'S STATEMENT

III. PROSPECTS FOR DEVELOPMENT (CONTINUED)

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

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

CHAIRMAN'S STATEMENT

III. PROSPECTS FOR DEVELOPMENT *(CONTINUED)*

On the other hand, the Group strives to make new breakthroughs in the research and development of innovative drugs. The Group will push forward the phase I clinical trial of anti-tumor Type 1 innovative drug NP-01, and conduct preliminary research on anti-liver fibrosis Type 1 innovative drug AND-9, anti-epileptic compound QO-83 and anti-tumor Type 2 chemical innovative drug Miriplatin in a thorough and diligent manner, so as to apply for clinical trial registration as soon as possible.

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

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

Qu Jiguang
Chairman

Hong Kong, 30 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

For the year ended 31 December 2020, the review on the Group’s business performance and financial performance are contained in the Chairman’s statement under section headed “BUSINESS REVIEW” and in this Management Discussion and Analysis under section headed “FINANCIAL PERFORMANCE REVIEW” respectively. The future development in the Group’s business is discussed in the Chairman’s statement under section headed “PROSPECT FOR DEVELOPMENT”.

Principal risks and uncertainties

As a pharmaceutical enterprise selling products of mainly intravenous infusion solution to hospitals and distributors in the PRC, the Group considers adverse changes and uncertainties in the pharmaceutical industry environment as well as in the government policy regarding intravenous infusion solution in the PRC as the Group’s principal risks and uncertainties.

During year 2020, the COVID-19 novel coronavirus epidemic has brought uncertainties and challenges to the pharmaceutical industry environment. The Group has been actively responding to the government of the PRC’s measures in fighting against novel coronavirus epidemic. For example, the Group has increased its supply of Abidol Hydrochloride capsules, the antiviral drug included under the China National Health Commission’s “Diagnosis and Treatment Program for Novel Coronavirus Infected Pneumonia”. On the other hand, the Group has committed in product diversification during the year. Higher sales in ampoule and bulk pharmaceutical products has significantly improved the product mix in order to mitigate the impact of the COVID-19 epidemic. The Group will keep continuous attention on the change of situation and make timely responses.

During year 2020, the Group Purchasing Organisation (the “GPO”) Programme expanded its coverage to more cities and more drugs in the PRC. In general, drugs included under the GPO are likely to face price competition. Currently, a majority of the Group’s products have not yet been included under the GPO. Nevertheless, the Group has started preparation works such as consistency evaluations for certain products selected by the Group.

Save as the abovementioned principal risks and uncertainties, other risks and uncertainties had been evaluated by the Company as set out in the Chairman Statement and note 26 to the financial statement.

Compliance with laws and regulations

During the year, the Company was not aware of any non-compliance with any relevant laws and regulations that had a significant impact on it.

Environmental policies and performance

As a pharmaceutical enterprise, the Group recognizes the importance of environmental sustainability and green manufacturing. The Group has set out policies to ensure its production to be in compliance with environmental requirements under the GMP standard and other relevant laws and regulations. For operating practices, the Group persistently adopted measures with low energy consumption and low pollution level, and encouraged its employees to put relevant environmental factors into consideration from time to time. Moreover, the Group had provided a green and eco-friendly working environment for its employees.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

Relationships with employees, suppliers and customers

The Group believes that employees are valuable assets. The Group provides competitive remuneration package to employees and is periodically reviewed with reference to industry practice. Apart from social insurance and in-house training programmes, other kinds of remuneration such as discretionary bonuses, share options and grant of shares may be awarded to employees according to the assessment of individual performance.

The Group also understands that it is important to maintain good relationship with its suppliers and customers to fulfil its immediate and long-term goals. The Group has been working continuously with its suppliers to improve the standard of raw materials, and aiming at delivering products with high quality to its customers. During the year, there was no material and significant dispute between the Group and its suppliers and/or customers.

FINANCIAL PERFORMANCE REVIEW

Revenue

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE REVIEW *(Continued)*

Revenue *(Continued)*

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

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

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

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

Cost of Sales

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

Gross Profit Margin

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE REVIEW *(Continued)*

Other Income

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

Selling and Distribution Costs

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

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

General and Administrative Expenses

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

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

Profit from Operations

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

Finance Costs

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE REVIEW *(Continued)*

Income Tax Expense

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

Profit Attributable to Equity Shareholders

For the year ended 31 December 2020, profit attributable to equity shareholders of the Company decreased by 46.1% to HK\$611,971,000 (2019: HK\$1,136,101,000). The net profit margin (defined as profit attributable to equity shareholders of the Company divided by total revenue) decreased from 24.5% last year to 14.4% this year.

Dividends

For the year ended 31 December 2020, the Board recommended a final dividend of HK\$0.05 per share (2019: HK\$0.06 per share) which, together with the interim dividend of HK\$0.05 per share (2019: HK\$0.05 per share), will result in total dividends of HK\$0.10 per share for the year ended 31 December 2020 (2019: HK\$0.11 per share).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 31 December 2020, the cash and cash equivalents aggregated to HK\$1,445,905,000 (2019: HK\$817,429,000), mostly were denominated in Renminbi ("RMB").

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

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

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

Overall, the Group continued to maintain a sound liquidity position, a sufficient working capital level and a low-risk capital structure in view of the Group's operation needs, capital commitments and the COVID-19 epidemic's impact on the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

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

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

The total remuneration cost incurred by the Group for year ended 31 December 2020 was approximately HK\$469,423,000 (2019: HK\$476,147,000).

CHARGE ON ASSETS

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

FOREIGN EXCHANGE RISK

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

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

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

MATERIAL ACQUISITIONS AND DISPOSALS

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

CONTINGENT LIABILITIES

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Qu Jiguang (曲繼廣先生), aged 66, the chairman of the Company, is responsible for the strategic planning, business development and overall management of the Group. Mr. Qu is also the chief executive officer of the Company who is responsible to lead the management implementing the business strategies of the Group. Mr. Qu joined Shijiazhuang No. 1 Pharmaceutical Factory (“No. 1 Pharma”) as deputy factory manager in 1995. He later became a director and the vice general manager of Shijiazhuang Pharmaceutical Group. From December 2004, Mr. Qu has been the chairman of New Orient Investments Pharmaceutical Holding (Hong Kong) Limited, a wholly owned subsidiary of the Company (“New Orient”), the chairman of China Pharmaceutical Company Limited, a controlling shareholder of the Company (“CPCL”) and the chairman of CMP Group Limited (“CMP”). Mr. Qu was an independent non-executive Director of the Company and was an executive director of China Pharmaceutical Group Limited, a company listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), from February 2001 to September 2004. Mr. Qu graduated from Tianjin Finance College with a postgraduate degree in Finance in 1999. He is also an economist accredited by The Ministry of Personnel of China. Mr. Qu has over 30 years of experience in pharmaceutical industry. He has key roles in China Pharmaceutical Industry Association (中國化學製藥協會), Hebei Provincial Association of Enterprise (河北省企業聯合會) and Hebei Pharmaceutical Industry Association (河北省醫藥行業協會).

Mr. Wang Xianjun (王憲軍先生), aged 58, an executive director. Mr. Wang has nearly 30 years of experience in the pharmaceutical industry and is responsible for investor relations and public relations affairs of the Group. Mr. Wang joined Shijiazhuang Pharmaceutical Group in 1987 and became the deputy chief engineer in 1989 and a director in 1993. Mr. Wang was the executive director and vice-chairman of China Pharmaceutical Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange, from May 1994 to December 2002. Mr. Wang graduated from Beijing Chemical Engineering College with a Master’s degree in Engineering in 1987. He joined the Group in July 2004 and was appointed as general manager of the Company in December 2004.

Mr. Su Xuejun (蘇學軍先生), aged 53, an executive director. Mr. Su is currently the chairman of the Board of Shijiazhuang No. 4 Pharma, the Company’s indirectly wholly-owned subsidiary. Mr. Su focuses in the pharmaceutical market development, operations and management. He has extensive understanding and experience in sales and marketing as well as the policy in pharmaceutical related industries. Mr. Su joined No.1 Pharma as assistant to factory manager in 1990. And afterwards he served as deputy general manager of a subsidiary of the Shijiazhuang Pharmaceutical Group selling preparations, deputy general manager of Shijiazhuang No.4 Pharma and general manager of Shijiazhuang No.4 Pharma. Since January 2007, Mr. Su acts as executive director of Shijiazhuang No.4 Pharma and New Orient. He is currently a Representative of the 13th People’s Congress of Hebei Province (河北省第十三屆人民代表大會代表). Mr. Su graduated from Hebei Normal University, majoring in biology, with a bachelor’s degree.

Non-executive director

Mr. Feng Hao (馮昊先生) aged 40, a non-executive Director. Mr. Feng currently serves as a deputy general manager and the secretary to the board of directors of Sichuan Kelun Pharmaceutical Co., Ltd. (“Sichuan Kelun”). Mr. Feng has a Master’s degree; was a teacher at the School of Economics at Huazhong University of Science and Technology; an analyst at the Actuarial Division of Taiping Life Insurance Company Limited; an actuarial advisory consultant at Watson Wyatt Consultancy (Shanghai) Ltd.; a senior manager at the investment banking division of Ping An Securities Limited; and a business director at the investment banking division of Sinolink Securities Co. Ltd. Since April 2014, Mr. Feng has been a senior management of Sichuan Kelun.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS (Continued)

Independent non-executive directors

Mr. Wang Yibing (王亦兵先生), aged 58, an independent non-executive Director. Mr. Wang graduated from Shenyang Pharmaceutical University, majored in pharmacy (瀋陽藥科大學藥學). Mr. Wang joined Hebei Provincial Pharmaceutical Research Centre (河北省藥物研究所) in July 1983 and became supervisor in research centre of pharmacodynamics, research centre of preparations, the pharmaceutical factory and scientific research management centre successively. In 1991, Mr. Wang joined the General Economics Division of Hebei Provincial Administration of Medicine (河北省醫藥管理局綜合經濟處) as vice supervisor and was promoted to supervisor and the deputy director successively. From April 2000 to July 2005, he was the Director of Division of Drug Registration and Division of Drug Safety and Inspection of Hebei Food and Drug Administration (河北省食品藥品監督管理局藥品註冊處·藥品安全監管處). Mr. Wang possesses over 30 years' experience in pharmaceutical research, production and industry regulation, is familiar with pharmaceutical laws and regulations and drug inspection procedures. He has profound exposure in the areas of pharmaceutical research, production, circulation and application, while comprehends and provides insights into the overall situation and trend of development of the pharmaceutical industry at both the provincial and state levels.

Mr. Leung Chong Shun (梁創順先生), aged 55, an independent non-executive Director. Mr. Leung is also an independent non-executive director of China Coal Energy Company Limited (Stock code: 1898), China Medical System Holdings Limited (Stock code: 867) and Min Xin Holdings Limited (Stock Code: 222), companies listed on the Stock Exchange. He served as an independent non-executive director of China Metal Recycling (Holdings) Limited (Stock code: 773) from May 2009 to August 2013, China Communications Construction Company Limited (Stock Code: 1800) from January 2011 to November 2017 and China National Materials Company Limited (Stock code: 1893) from July 2007 to May 2018. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Laws degree in 1988 and obtained the Postgraduate Certificate in Laws in 1989. Mr. Leung was qualified as a solicitor in Hong Kong in 1991 and England & Wales in 1994. He has been a partner of Woo Kwan Lee & Lo, a law firm in Hong Kong, since 1997 and is experienced in corporate finance. Mr. Leung is currently a China-Appointed Attesting Officer appointed by the Ministry of Justice of the PRC.

Mr. Chow Kwok Wai (周國偉先生), aged 54, an independent non-executive Director. Mr. Chow is currently a non-executive director of Cinda International Holdings Limited (stock code: 111), a company listed on the Stock Exchange. He served as an executive director of Silver Grant International Holdings Group Limited (stock code: 171) from April 2004 to December 2012 and an independent non-executive director of Youyuan International Holdings Limited (stock code: 2268) ("Youyuan"), a company incorporated in the Cayman Islands with limited liability, from May 2010 to October 2019. Youyuan and its subsidiaries are principally engaged in manufacturing and trading of wrapping tissue paper, wall paper products, copy paper and other products. On 4 October 2019, The Hongkong and Shanghai Banking Corporation Limited filed a winding-up petition against Youyuan in Hong Kong. Joint and several provisional liquidators of Youyuan were appointed on 18 October 2019. The hearing date of the winding-up petition is still pending. Mr. Chow confirmed that he was not involved in the incidents giving rise to Youyuan's winding-up petition and, so far as he is aware, there was no wrongful act on his part leading to the petition. To Mr. Chow's understanding after enquiries, the amount involved under the petition appears to be around HK\$2.6 billion. The listing of Youyuan's shares was cancelled with effect from 22 March 2021 under Listing Rule 6.01A. For the avoidance of doubt, Youyuan's winding-up petition and cancellation of listing are not related to SSS Group Limited and its subsidiaries. Mr. Chow has worked in Price Waterhouse, which is now known as PriceWaterhouseCoopers, and has accumulated valuable audit experience there. Mr. Chow has nearly 30 years of experience in accounting, financial management and corporate finance. Mr. Chow received his bachelor degree in Social Sciences from the University of Hong Kong in 1990. Mr. Chow is a Fellow member of the Association of Chartered Certified Accountants and a Fellow CPA of the Hong Kong Institute of Certified Public Accountants. He is also a Chartered Tax Adviser and a Fellow member of the Taxation Institute of Hong Kong.

CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Mr. Chow Hing Yeung (周興揚), aged 42, the Chief Financial Officer and Company Secretary of the Company. Mr. Chow is a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chow obtained a Bachelor's degree of Business Administration from the Chinese University of Hong Kong. He has nearly 20 years of experience in areas of auditing, accounting and financial management.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted various policies to ensure compliance with the code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). During the year ended 31 December 2020, the Company has complied with all applicable code provisions of CG Code except the followings:

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2020.

BOARD OF DIRECTORS

As at 31 December 2020, the Board comprises three executive Directors, namely, Mr. Qu Jiguang (Chairman), Mr. Wang Xianjun and Mr. Su Xuejun, one non-executive Director, namely Mr. Feng Hao and three independent non-executive Directors, namely, Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai.

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic direction and performance. All policy matters of the Group, material transactions or transactions where there is conflict of interests are reserved for the Board's decisions. The Board is also responsible for reviewing and monitoring the training and continuous professional development of directors and senior management, the policies and practices on compliance with legal and regulatory requirements of the Company, the code of conduct applicable to employees and directors as well as the Company's policies for corporate governance and its compliance with the relevant code and disclosure as set out in the Corporate Governance Report.

The Board has delegated the day-to-day responsibility for the management of the Group to the management. The Board has given clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these committees are set out in this report.

The Directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company, details of the Directors are shown under the section headed "Biographical Details of Directors and Senior Management". There are sufficient numbers of independent non-executive Directors in the Company, among which, Mr. Chow Kwok Wai is a certified public accountant and Mr. Leung Chong Shun is a qualified solicitor in Hong Kong.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers them to be independent.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (Continued)

Appropriate directors' and officers' liability insurance has been arranged for the Directors and Officers of the Company.

There are no financial, business, family and other material or relevant relationships among members of the Board.

During the year ended 31 December 2020, a total of five board meetings and one annual general meeting ("AGM") were held and the attendance of each Director was as follows:

Name of Director	Number of meetings attended/held	
	Board meetings	AGM (Note)
<i>Executive Directors</i>		
Mr. Qu Jiguang (Chairman)	4/5	1/1
Mr. Wang Xianjun	5/5	1/1
Mr. Su Xuejun	5/5	0/1
<i>Non-executive Director</i>		
Mr. Feng Hao	5/5	0/1
<i>Independent non-executive Directors</i>		
Mr. Wang Yibing	5/5	1/1
Mr. Leung Chong Shun	5/5	1/1
Mr. Chow Kwok Wai	5/5	1/1

Note: Code Provision A.6.7 stipulates that, generally, independent non-executive directors and other non-executive directors should also attend general meetings to gain and develop a balanced understanding of the views of shareholders. For the annual general meeting of the Company held on 22 May 2020, Mr. Feng Hao, the non-executive director of the Company, was unable to attend the meeting because he had more important business engagements on that day.

Notice of at least 14 days was given of a regular board meeting. For all other board meetings, reasonable notice will be given. All Directors were given an opportunity to contact the Company Secretary to include matters in the agenda for regular board meeting. Agendas and accompanying board papers were sent to all Directors at reasonable time before the intended date of meetings.

Minutes of board meetings and meetings of board committee were kept by Company Secretary and such minutes are open for inspection at reasonable time and on reasonable notice by any Director. Such minutes were recorded in sufficient detail the matters considered by the board and decisions reached. Draft and final versions of such minutes were sent to all directors for their comment and record respectively within a reasonable time after the board meeting was held.

All directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed. The Company has a procedure to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be discussed by a Board meeting actually held. Independent non-executive Directors who have no material interest in the transaction shall be present at such Board meeting.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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.

NOMINATION POLICY OF DIRECTORS

The appointment and re-election of Directors shall be made in accordance with the Company's Articles of Association and other applicable rules and regulations, including but not limited to the Listing Rules. In addition, the Company has established a nomination policy with the objectives of setting out the key selection criteria, principles and procedures of appointments and re-election of directors. The factors used as reference by the Nomination Committee in assessing the suitability of a proposed candidate includes reputation for integrity, skills and knowledge, experience in pharmaceutical industry, commitment in respect of available time as well as age, culture, ethnicity and gender diversity of the Board. The candidate to be nominated as an independent non-executive Director must satisfy the independence criteria set out in the Listing Rules. Where applicable, the totality of the candidate's education, qualifications and experience shall also be evaluated for filling the office of an independent non-executive Director. All these criteria are for reference only and are not meant to be exhaustive or decisive, and the Board shall take into consideration the benefits of a diversified Board when selecting Board candidates. The Nomination Committee will monitor the implementation of and from time to time review the nomination policy, as appropriate, to ensure the effectiveness of it.

Regarding nomination procedures, the Company Secretary shall call a meeting of the Nomination Committee, and invite nominations of candidates from Board members if any, for consideration by the Nomination Committee. The Nomination Committee may also put forward candidates who are not nominated by Board members. Details of the candidate including the names, brief biographies (including qualifications and relevant experience), independence, proposed remuneration and any other information should be provided for consideration by the Nomination Committee, the Board and/or the shareholders in the general meeting. For shareholders' nomination of any proposed candidate for election as a director, please refer its procedures to the section headed "Shareholders' Rights" in this report.

APPOINTMENTS AND RE-ELECTION OF DIRECTORS

Subject to the requirement of retirement from office by rotation pursuant to the Articles of Association of the Company as set out in the next paragraph, each of non-executive Director and independent non-executive Directors has entered into a service contract with the Company for a term of three years, and executive Directors has entered into a service contract with the Company for a specific term (usually three years) which may be extended as each Director and the Company may agree.

At each annual general meeting, one-third of the Directors (including non-executive Director and independent non-executive Directors) for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that each Director shall be subject to retirement at least once every three years. Also, the Directors appointed as an addition to the Board shall be subject to re-election by the shareholders at the first general meeting after their appointment.

CORPORATE GOVERNANCE REPORT

TRAINING FOR DIRECTORS

All Directors have participated in continuous professional development to develop and refresh their knowledge and skills. All Directors are regularly updated on the latest developments regarding the Listing Rules and other applicable regulatory requirements in directors training courses arranged by the Company. A record of the directors training are kept and updated by the Company Secretary of the Company.

During the year, all Directors namely Mr. Qu Jiguang, Mr. Wang Xianjun, Mr. Su Xuejun, Mr. Feng Hao, Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai have complied with the code provision A.6.5 of the CG Code through participating in continuous professional development in one or more of the following manners:

1. reading materials or attending directors training courses in relation to corporate governance and regulatory requirements;
2. attending seminars/courses/conferences to develop professional skills and knowledge; and
3. site visit.

BOARD DIVERSITY POLICY

The Company has adopted a board diversity policy which sets out the approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. Pursuant to the policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, ethnicity, professional experience, skills, knowledge and length of service.

Taking into account the characteristics of the pharmaceutical industry, the Group's current situation and the feasibility of measurable objectives related to various factors, the Board has set the following measurable objectives:

1. the Board comprises directors who have professional qualifications or relevant experience in each of the following fields: accounting, legal and China pharmaceutical industry; and
2. the Board comprises executive director, non-executive director and independent non-executive director;

At present, the above measurable objectives are achieved.

To ascertain the progress made towards achieving the objective of Board diversity, the Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness. The Board will also review the measurable objectives to ensure their appropriateness and consider setting any new measurable objectives from time to time.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Board has established the Nomination Committee. The Nomination Committee is chaired by Mr. Wang Yibing and with committee members of Mr. Leung Chong Shun and Mr. Chow Kwok Wai, all of them being independent non-executive Directors. The terms of reference of the Nomination Committee are available at the Company's website and the website of The Stock Exchange of Hong Kong Limited.

The principal roles and functions of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board taking into account the Board Diversity Policy of the Company, and making recommendations on any proposed changes to the Board, identifying candidates and/or making recommendations to the Board on candidates nominated for directorships taking into account the Nomination Policy of Directors of the Company.

Meeting of the Nomination Committee shall be held at least once a year. One meeting was held during the year ended 31 December 2020. During the meeting, composition of the Board and the nomination policy of Directors of the Company were reviewed. The attendance of each member was as follows:

Name of committee members	Number of meetings attended/held
Mr. Wang Yibing	1/1
Mr. Leung Chong Shun	1/1
Mr. Chow Kwok Wai	1/1

REMUNERATION COMMITTEE

The Board has established the Remuneration Committee, chaired by Mr. Leung Chong Shun and with committee members of Mr. Wang Yibing and Mr. Chow Kwok Wai, all of them being independent non-executive Directors. The terms of reference of the Remuneration Committee are available at the Company's website and the website of The Stock Exchange of Hong Kong Limited.

The principal roles and functions of the Remuneration Committee is the formulation, review and recommendation to the Board of the remuneration policy of executive Directors and senior management. The overriding objective of the remuneration policy is to provide the packages needed to attract, retain and motivate executive Directors and senior management of the quality required to run the Company successfully, without paying more than necessary.

Other roles and functions of the Remuneration Committee include consulting the Chairman and/or Chief Executive Officer about their remuneration proposals for other executive Directors and senior management, reviewing and approving remuneration proposals 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, approving the terms of executive Directors' service agreements and making recommendations to the Board on the remuneration packages of individual Directors and senior management.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE *(Continued)*

Meeting of the Remuneration Committee shall be held at least once a year. One meeting had been held during the year ended 31 December 2020. During the meeting, remuneration paid to the Directors and the remuneration policy of Directors and senior management of the Company have been reviewed. The attendance of each member was as follows:

Name of committee members	Number of meetings attended/held
Mr. Leung Chong Shun	1/1
Mr. Wang Yibing	1/1
Mr. Chow Kwok Wai	1/1

The objective of remunerating non-executive Directors is to ensure that they are remunerated sufficiently but not excessively for their efforts and time dedicated to the Company. Every of the non-executive Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date. The annual emolument is HK\$228,000 for the non-executive Director, namely Mr. Feng Hao, and each of the independent non-executive Directors, namely Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai.

Remuneration packages of executive Directors comprise base salary, performance bonus and fringe benefits including the provident fund, medical insurance and other miscellaneous benefits. All the Directors are entitled to participate in the Share Option Scheme. The emolument payable to Directors depends on their respective contractual terms under the service agreement with the Company, and as recommended by the Remuneration Committee. Details of the remuneration of Directors for the year ended 31 December 2020 are set out in note 8 to the financial statement.

AUDIT COMMITTEE

The Board has established the Audit Committee and its terms of reference are available at the Company's website and the website of The Stock Exchange of Hong Kong Limited. In compliance with Rule 3.21 of the Listing Rules, the Audit Committee comprises three independent non-executive Directors. The Audit Committee is chaired by Mr. Chow Kwok Wai who is a certificated public accountant and the committee members are Mr. Wang Yibing and Mr. Leung Chong Shun. No member of the Audit Committee is a member of the former or the existing auditor of the Company.

The principal roles and functions of the Audit Committee are to assist the Board to provide an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the external audit and internal control review processes, and to review the Company's policies and practices on corporate governance.

According to its terms of reference, meetings of the Audit Committee shall be held at least twice a year. Two meetings had been held during the year ended 31 December 2020. The attendance of each member was as follows:

Name of committee members	Number of meetings attended/held
Mr. Chow Kwok Wai	2/2
Mr. Leung Chong Shun	2/2
Mr. Wang Yibing	2/2

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE *(Continued)*

During the year, in performing its duties in accordance with its terms of reference and under the CG code, the work performed by the Audit Committee included:

- (a) review the financial information of the Company and its subsidiaries, including those contained in the Annual Report and the Interim Report;
- (b) discuss the audit approach and audit issues with the external auditor at least twice a year;
- (c) recommend to the Board, for the approval by shareholders, of the re-appointment of the external auditor and approval of its remuneration; and
- (d) oversee the Company's financial reporting system and internal control procedures.

ACCOUNTABILITY AND AUDIT

The Board presents a balanced, clear, and comprehensible assessment of the Company's performance, position, and prospects. The management provides such explanation and information to the Board and reports regularly to the Board and financial position of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Directors acknowledge their responsibilities (as set out in page 55 of this Annual Report under the section headed "Independent Auditor's Report") for preparing the financial statements of the Group that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by the auditor about their reporting responsibilities is included in the Independent Auditor's Report.

AUDITOR'S REMUNERATION

The fees paid and payable to the Company's auditor, KPMG, in respect of audit services and non-audit services for the year ended 31 December 2020 amounted to approximately HK\$2,500,000 and HK\$nil respectively.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for overseeing the risk management and internal control systems of the Company. The Board is committed to maintain the effectiveness of such systems so as to manage the risk of failure to achieve business objectives, provide reasonable assurance against material misstatement or loss and to safeguard shareholders' interests and the assets of the Company. Detailed policies and procedures in various departments and functions are established to implement such systems and achieve their objectives.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL *(Continued)*

The Board conducted annual review of the risk management and internal control systems of the Company and its subsidiaries. Having assessed the current situation of the Group including its operation size, business risk level and resources required for setting up in-house internal audit, the Board considered the engagement of an external professional firm as internal control consultant is in the best interests of the Company. A risk management plan is set up by the internal control consultant. The significant risks of the Group are then identified, assessed and documented, which are taken into consideration by the internal control consultant in the design of internal control system review. The review covers all material controls of the Group, including financial, operational and compliance controls. Results of the review are reported to the Audit Committee for making recommendation to the Board on the effectiveness of the risk management and internal control systems. Suggestions proposed in the review are also considered by the Board for improving the Company's internal control measures and resolve material internal control defects, if any.

For the year ended 31 December 2020, a review on the effectiveness of the risk management and internal control systems of the Company has been conducted by the Board. Based on the information provided by the internal control consultant and its own observations and assessments, the Board concluded that the risk management and internal control systems are effective and adequate.

COMPANY SECRETARY

All directors have access to the advice and services of the Company Secretary who is a full time employee of the Company. During the year, the Company Secretary had taken no less than 15 hours of relevant professional training requirement.

SHAREHOLDERS' RIGHTS

(1) Procedures for shareholders to convene an EGM

In accordance with the Company's Article 58, the shareholders of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting ("EGM") to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition.

The written requisition must state the purposes of the meeting, signed by the requisitionists and deposit it to the Board or the Company Secretary at the Company's principal place of business in Hong Kong at Rooms 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The notice period to be given to all the registered members for consideration of the proposal raised by the requisitionists concerned at EGM varies according to the nature of the proposal, as follows:

- At least 14 clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company;
- At least 21 clear days' notice in writing if calling for an AGM or the proposal constitutes a special resolution of the Company at EGM.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

(1) Procedures for shareholders to convene an EGM *(Continued)*

If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Board shall be reimbursed to the requisitionists by the Company.

(2) Procedures for putting forward proposals at shareholders' meeting

Shareholders can submit a written requisition to move a resolution at EGM. The requirements and procedures are set out above.

(3) Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the Company's Hong Kong branch share registrar. Shareholders may also make enquiries to the Board by writing to the Company Secretary at the Company's principal place of business in Hong Kong.

COMMUNICATIONS WITH INVESTORS AND HANDLING OF INSIDE INFORMATION

The Company believes that effective communication is essential for enhancing investor relations and investors' understanding of the Group. The Company also recognises the importance of transparency and timely disclosure of its corporate information, which enables shareholders and potential investors to make informed decisions.

The Company issues guidance to Directors and officers on assessing whether material information that comes to their knowledge is inside information and escalating such information for the attention of the Board promptly. The Company discloses information and publish announcements in compliance with the Listing Rules and other relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, accurate and complete.

The Company uses a number of channels to communicate with its shareholders, investors and other stakeholders. These include the AGM, annual and interim reports and quarterly statements, announcements, circulars to shareholders, press releases and the Company's website www.ssygroup.com.hk.

During the year, there was no change in the Company's constitutional documents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

As a pharmaceutical enterprise, the Group recognises the importance of environmental sustainability and green manufacturing. Combining its own experience, the Group mainly adopts the principles and the basis of “Environmental, Social and Governance Reporting Guide” (applicable as at 31 December 2020) as set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) as the standard of the Group, with the objective of establishing a sound environmental, social and governance structure.

This report covers the period from 1 January 2020 to 31 December 2020. This report sets out the Group’s strategies and practices in two categories, namely environmental and social, to enhance the comprehensive and in-depth understanding by the shareholders, investors and public towards the Company’s governance and culture through this report.

STAKEHOLDERS’ ENGAGEMENT AND MATERIALITY

The Group believes that we need to prioritize environment and social responsibility and to continuously look for ways to improve its environment management system. Apart from achieving business targets, we recognise the responsibility to operate business in a more responsible and sustainable manner, incorporating environmental, social and governance considerations into our daily operations.

Based on our experiences and communications with internal and external organisations, the Group consolidated seven different groups of stakeholders that are relevant to our business. These include our management, general staff, community and the public, shareholders and investors, suppliers and business partners, customers, and the government and regulators. The Group tries its utmost best to communicate with every stakeholder group through various communication channels. Stakeholder participation allows the Group to ensure our business and sustainability strategies align with the stakeholders’ perspectives and expectations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDERS' ENGAGEMENT AND MATERIALITY *(Continued)*

	STAKEHOLDER GROUP ENGAGED	ENGAGEMENT METHODS
Internal Stakeholders	Management	— Regular Meetings
	General Staff	— Regular Meetings — Trainings and workshops — Annual appraisal meetings — Company magazine and intranet
External Stakeholders	Community and the Public	— Joint community activities
	Shareholders and Investors	— General meetings — Investor information sessions — Site visits — Regular information disclosure of the listed company — Investor visits and meetings — Telephone and email enquiries
	Suppliers and Business Partners	— Tender meetings — Supplier management procedure
	Customers	— Customer opinion surveys — Customer communication meetings — Day-to-day communication with frontline staff — Customer feedback mechanism
	The Government and Regulators	— On-site inspection and work reports preparation, submission and approval — Conversations with regulatory authorities — Regular communication with local environmental departments — Consultation and information disclosure

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDERS' ENGAGEMENT AND MATERIALITY *(Continued)*

After communicating with our senior management and internal control consultant, and after taking into account the materiality of effects of the Group's environment, social and governance issues on the stakeholders and the Group, the Group has assessed and determined four focus aspects, namely emission aspect, supply management in operating and production aspect, anti-bribery in anti-corruption and labour regulation in employment and labour aspect and are included in the disclosure in later section of this report.

ENVIRONMENTAL CATEGORY

The Group has formulated policies to ensure the compliance of the production by its companies in the PRC (the "Company") with the environmental requirements under the GMP standards and relevant environmental laws and regulations of the PRC. In practice, the Company adopted low energy consumption and low pollution measures, and encouraged employees to consider related environmental factors from time to time.

The Company has advocated "green" pharmaceutical philosophy, in which significant historical missions such as environmental protection and the rational use of resources play a prominent role in each and every section of the Company's operations including technological transformation and product formulation selection. Where there is a conflict between production development and environmental protection or resources conservation, the Company has always prioritised the harmonious development of the society and has never sacrificed the environment and resources for profits. In recent years, the Company has actively conducted emissions reduction measures and has put energy conservation and environmental protection in important positions. By means of technological transformation, the adoption of new materials, technologies and processes, the promotion of equipment and technologies with high energy efficiency, as well as technological advancements, the Company has realised its sustainable development, fully embodying the social responsibilities and conscience of a pharmaceutical manufacturer.

Emissions aspect

The Company devoted great effort in pollution prevention and control, protection of ecological system in strict compliance of each GMP standard and the relevant laws and regulations in the PRC, in an effort to strengthen the management ability in environment. The Company had various pollution prevention and control facilities to comply with applicable standards of main sewage outlet, applicable standards of air exhaust vents and emission permitted by the emission license. Based on new techniques, new technologies and new products of zero or minimal pollution, the Company commenced integrated treatment for "three waste", details as below: for exhaust gas, "Alkaline wash+ multi-media catalysts and oxidants absorption tower" treatment, bag-type filter and "pre-wash+ bio-filter" treatment were utilised to meet emission targets; for sewage, the sewage treatment plant has met the operation standard; for solid wastes, sorting and separation were conducted to implement full process supervision and management of hazardous waste, covering from its generation to treatment. In 2017, the Company was the first batch of companies recognised in the Green Manufacturing Demonstration List by the Ministry of Industry and Information Technology. During 2020, the Group has not breached the above laws and regulations in relation to emission.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL CATEGORY *(Continued)*

Emissions aspect *(Continued)*

Types of Emissions

	2020	2019 <i>(Note 1)</i>
Wastewater emission (ton)	752,464	531,645
Biochemical oxygen demand (BOD ₅) (ton)	40	35
Greenhouse gases		
Carbon dioxide emission <i>(Note 2)</i> (ton)	159,206	146,968
Non-hazardous waste (ton)	2,227	1,922

Note 1: Bulk pharmaceutical production base in Cangzhou only began operation in Q4 of year 2019, and thus was not included in data collection of year 2019 due to its low materiality relative to whole of the Group.

Note 2: Emission amount represents indirect emission from energy consumption

The Company uses various machines and equipment to treat different pollutions, including:

The Company has three sewage treatment stations which improve the sewage treatment capacity. The sewage treatment station uses the biochemical treatment process in combination with physical and chemical treatment methods. The treated sewage is discharged into the sewage pipe network after it meets the standards. The sewage that has been treated in the sewage treatment station meets the discharge target of the industrial zone.

The station mainly handles exhaust gas and is equipped with four sets of treatment facilities, among which, the "bag filter + 25m high exhaust gas pipe" is mainly used for filtering workshop dust, the "alkali wash + multi-media catalytic oxidation absorption tower + 25m high exhaust pipe" is used to remove the odour generated in the workshops, and the "bio-filter + 15m high exhaust pipe" is used to remove the odour generated in the tanks; the Company has also installed facilities including grinders, tableting machines, pumps, fans and air compressors for vibration damping, sound insulation, sound reduction, etc.

The Company's bulk pharmaceutical production base in Cangzhou has applied advanced synthesis, reduction, separation as well as extraction artifices and new devices. Through adopting new equipment and new technology, optimising production processes and recycling the wastes or by-products produced from other projects in the park as raw materials, the reduction, reuse and maximisation of resources are achieved, and a cyclic economic and industrial chain is established.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL CATEGORY (Continued)

Resources and energy aspect

Taking the management approach of “conserving energy to increase efficiency, reducing consumption to increase production, reducing emission to improve environment and implementing green practices to develop pharmaceutical” in energy, the Company conscientiously implemented its energy management system to enhance its quality of overall management and awareness on environmental protection, as well as to minimize operational risk. Water for circular sterilisation in infusion production lines were utilized by separation of high-temperature water and low-temperature water, externally purchased steam used were condensed, recycled and used for heat source and supplementary water in circulation, so to achieve energy conservation. Since the existing compressed air output can no longer meet the production needs under the continuous expansion of the Company’s production, the application of centrifugal air compressor as the replacement for the original screw air compressor and the application of Pneumatch Desiccant Dryers as the replacement for the damaged cold dryers not only improved the production capacity, but also reduced electricity consumption. Initiatives such as recycling of thermal energy from the hot-pressed distilled water machine were in place to conserve energy and reduce sewage discharge.

Types of resources and energy consumption

	2020	2019 (Note 1)
Water (ton)	958,042	708,603
Electricity (thousand kWh)	156,021	137,482
Steam (million kJ) (Note 2)	809,852	937,575
Natural gas (Note 2) (million KJ)	242,625	—
Total amount of packaging materials used on finished products (ton)	78,458	104,163

Note 1: Bulk pharmaceutical production base in Cangzhou only began operation in Q4 of year 2019, and thus was not included in data collection of year 2019 due to its low materiality relative to whole of the Group.

Note 2: During winter heating period of year 2020, the Company reduced the use of steam and replaced it by natural gas.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL CATEGORY *(Continued)*

Resources and energy aspect *(Continued)*

In line with the committed pursuit for a “high growth, low consumption” economic growth model, the Company aggressively started resources regeneration and circular economy projects to conserve energy and reduce consumption. The Company has recycled all condensed steam water, and completed: the renovation of screw air compressors and post-treatment systems for 14 units on top of the 2 units last year, to conserve energy by reducing gas loss; the renovation of automated self-loading vehicles for a total of 6 production lines to reduce the change of soft bag abrasion; and the renovation of product inspection by light from manual to automatic for glass bottles, greatly enhancing production ability, reducing labour intensity, as well as increasing the product quality. The Company also adopted Germany’s powder freeze and dryer, which has expedited the research and development of the products of the Company. Through such, the Company has successfully reduced the electricity consumption and achieved cutback of raw materials, hence fully demonstrated an economic use of energy and resources. The Company has also completed the establishment of “energy management system”, on the basis of the “four mechanisms” of energy conservation management, namely “planning, implementation, inspection and improvement”, optimised the development of the energy conservation and emission reduction management system, implemented continuous enhancement of energy conservation work, realised continuous enhancement of energy conservation management and continuous improvement of the efficiency levels, thereby ensuring the full completion of energy conservation and emission reduction objectives.

For the new projects of the Company, in addition to the foundation of the existing advanced domestic standards, such projects have directly aligned to the international advanced standards. Advanced technology and design concepts are brought from Germany, and the world’s most advanced equipment and facilities are selectively procured, so as to achieve scale production and serve as a high-standard demonstration project of energy conservation and integrated use of resources for the intravenous infusion industry in China. Such demonstration project is echoing to the necessity of the national intravenous infusion sector to raise its quality standard and reduce its waste discharge.

Heat and electricity are two major energy consumption of the Company. The Company has exploited potential from various aspects to reduce its energy consumption, lower its production costs. The Company established an advanced energy management centre which can conduct systematic monitoring on energy as well as whole-process and real-time monitoring of general water, steam, power systems, compressed air, cooling, circulating water, heat supply and waste heat recovery systems to gain real-time understanding of its energy supply and consumption, as well as the operational status of its equipment. The system can access the monitoring signal process curves or historical data in relation to pressure, flow volume, temperature, etc. The Company adopted energy-saving products such as the application of energy-efficient motor, inverter and servo-motor control. High-voltage motors are utilised for high-power equipment to reduce energy consumption as much as possible. The Company’s overall power system adopts the combination of power compensation and harmonic control, which not only ensures its power quality, but also effectively improves the power quality of the entire power grid. With the remarkable social benefits of energy saving and environmental protection, this not only guarantees the economic benefits of the Company, but also takes the responsibility for the interests of society as a whole.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL CATEGORY *(Continued)*

Resources and energy aspect *(Continued)*

In order to reduce product energy consumption, it is necessary for the Company to reduce heat consumption. Steam consumption has been effectively reduced after the Company's application of hot-press distilled water machine as the replacement for domestic multi-effect distilled water machine. The Company promotes energy conservation and purchased tens of thousands of sets of energy-efficient LED green lighting to replace the traditional fluorescent lamps, energy-saving lamps and incandescent lamps, and has conserved energy. Canteen is equipped with a solar hot water station, which uses low-carbon and clean new energy for cooking, washing and staff to wash their hands. By adopting solar energy systems, the Company replaces coal consumption for steam generation with renewable energy, reducing the consumption of non-renewable energy sources.

To improve water utilisation, the Company not only uses water-saving appliances and equipment, but also develops its water-saving potential. Steam is recycled through condensation and reused as the heat source for preheating raw water in the production of injection water. The condensed water is reused in the circulating pool, greatly reduces the freshwater needed for supplementing the circulating pool. Strengthen water-saving technological transformation: A concentrated water recycling device was installed in the water generation system. Large infusion bottles are now washed with clean air instead of water, which have considerably reduces water consumption. Optimise equipment combination to reduce water consumption: changing the traditional way of isolated, small-batch production by production lines, the Company has concentrated multiple production lines for production in much larger quantities. Besides, the Company has greatly reduced the number of errors and materials pollution during production and improved the yield. It has reduced the area of clean areas to reduce the energy consumption of air conditioning systems. It has also lowered the number of times for cleaning preparation tanks and the water volume used for single-time washing, thus cutting the consumption of injected water. The Company utilises advanced equipment to reduce water consumption. Purified water production adopts the RO + EDI and RO + RO purified water preparation system in replacement of the RO + mixed ion exchange resin (mixed bed) purified water preparation system. Additionally, the Company has improved its comprehensive water utilisation rate and is no longer require the use of acid and alkali to avoid the pollution of water by the use of acid and alkali for the regeneration of resin, thereby reducing sewage discharge. The Company has established four sets of water circulation systems for sterilisation, cold water, cooling water and air compressor cooling, which are capable of recycling circulating water, greatly reducing one-off water consumption.

The Company uses various energy-saving machines and equipment, including:

- Modification of existing machines: Modifying screw air compressor into centrifugal air compressors, the air to electricity ratio of air compressor is greatly reduced, massively conserving electric energy. Modifying cold dryers into desiccant dryers, reducing air loss, thus increasing the production of compressed air and conserving electric energy.
- Bottle blowing equipment: Appropriate allocation of production lines by the Company enhances production and delivery ability, thus increases the daily production of each unit and lowers energy consumption of products.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL CATEGORY *(Continued)*

Resources and energy aspect *(Continued)*

- Large hot-pressed injected water machine: The hot-pressed injected water machine has undergone multiple heat exchange internally comparing to traditional multi-functioned water machine, achieving optimised energy usage. At the same time, rational production of water output and water storage is achieved through variable frequency control, saving steam by approximately 60%.
- Offline punching machine: Solving the waste issue of leftover materials in production, massively increases the production ability of liquid injections products.

Environment and natural resources aspect

As a manufacturer of intravenous infusion solution, water is the foundation of the Company. The Company continuously implements process reforms and enhances its integrated utilisation of water resources for water conservation. For effective utilisation of limited water resources, the fine cleaning water is reused for rough cleaning in the glass bottle production lines; the reverse-osmosis-first-grade concentrated water in the water station is recycled, and the second-grade concentrated water is recycled and used for cleaning; the steam condensed water generated from sterilisation cabinets and distilled water machines is recycled and used for pre-heating of raw water for production of water for injection, water for bathroom, cooling water for sterilisation during production process and supplementary water for air conditioning.

Meanwhile, the Company highly focuses on the intensive use of land. On top of its scientific planning, reasonable layouts and sophisticated designs are orderly implemented, enabling its factories to create greater economic and social benefits despite having limited land resources. In the past few years, for greater utilisation of the limited land, the Company endeavoured in its intensive use of land with conscientious in its land planning, utilisation, took advantage on the effects from land-savings, and adopted a "up and down" combined approach through the full utilisation of aboveground and underground space resources. The Company has successively established a three-dimensional logistics centre which meets advanced international standards, which has once been the largest of and earliest of its kind in Northern China with the highest standard of automation. Such warehouse is larger than that of a flat warehouse in capacity by seven times. Currently, the Company has five three-dimensional logistics centre. The Company's land saving practice has been highly praised by the Ministry of Land and Resources of the People's Republic of China.

The Company's bulk pharmaceutical production base in Cangzhou has built a garden-style "Green Park" that contains multiple dedicated production lines, research and development experiment building, environmental protection centre and ancillary power facilities on the premise of intensive land use, environmental protection, energy saving, safe production and greener environment, so to set a model for others.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL CATEGORY

Employment and labour aspect

The Group appreciates its employees as valuable asset. The Group provides competitive remuneration package to employees and periodically reviewed such packages with reference to industry practice. Discretionary bonuses and share options might be granted to employees based on the assessment of individual performance of the employees. The Group's companies in the PRC annually reviewed remuneration package of employees based on the development of the society, increase in consumer prices and corporate results to maintain the employee remuneration at reasonable level. In addition, pensions, work-related injury insurances, medical insurances, maternity insurances, unemployment insurances and housing provident funds are paid for employees as required by the laws to ensure various legitimate interests of its employees. At the same time, the Company advocates for fair competition and was against discrimination to ensure equal starting salary for different genders and equal pay for equal work.

Total number of employees

		31 December 2020	31 December 2019 (Note)
Total		4,684	4,773
By gender	Male	2,636	2,702
	Female	2,048	2,071
By age	18-30	2,438	2,624
	31-50	2,005	1,888
	Over 50	241	261
By education level	Doctorate	7	7
	Post graduate	135	126
	Bachelor	823	735
	Tertiary	1,546	1,287
	Technical secondary school and below high school	2,173	2,618

Note: Including 545 employees in bulk pharmaceutical production base in Cangzhou as at 31 December 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL CATEGORY *(Continued)*

Employment and labour aspect *(Continued)*

The Group's companies in the PRC strictly complied with the relevant laws and regulations such as the Labour Law and the Labour Contract Law of the PRC, and timely optimised the management system of employment relationships pursuant to the changes and amendments of national policies and regulations. The Company strictly followed the relevant laws and regulations, such as the Labour Law and the Labour Contract Law in the signing, renewal, cancellation and termination of employment contracts with employees; deployed labour in accordance with procedures to reduce disputes and controversies related to employment contracts, and maintain the mutual interest of the parties to employment contracts. The Company also set up rigorous recruitment systems and procedures to prevent child and forced labour.

The Company persistently upheld occupational health and safety of employees, strictly complied with the requirements regarding production safety under GMP standard and the PRC laws, and provided trainings and educational seminars to its employees. The Company has also set up a health and safety committee to gradually optimize health and safety management through efforts in various areas, including setting up an accountability system for production safety for staff at all levels, performance evaluation, safety inspection, hazard assessment, emergency drills, personal protections and operation safety. The Company has also assessed and upgraded the fire-control facilities, machines and equipment for safety and medical emergency of all workshops to ensure a safe work place for its employees.

The Company focuses on the personal health of our staff, thus, body check is arranged for them every year. In addition, the Company actively responds to "One Day Donation (一日捐)", a mutual assistance activity for our staff organised by the government, which aims to make contributions and help staff and their families who are in difficulties due to serious illness or accidents. In January 2020, the COVID-19 prevention and control leading group was established to assume the full responsibility for the Company's epidemic prevention and control, and to formulate epidemic contingency plan in advance.

The Company paid great attention to employee development. With the aim to enhance the individual capability of, and provide better development opportunities for its employees, the Group invested substantial amount of financial and human resources in the trainings for staff. During the reporting period, the Company arranged a total of 27,650 training hours for new employees. Pursuant to the annual training plan, the training hours received by staff among the organization increased by 49,171 hours in total.

The Company actively launched for all workshops the evaluation and upgrade of fire control facilities, devices and equipment for safety and emergency, as well as the safety control hardware in the places where flammable and explosive chemicals are used. The Company continued to implement the assessment rules for the implementation of departmental responsibilities, and initiated mechanical protection surveys and evaluations on all mechanical equipment, devices and production lines in the department offices and workshops. The inspection of mechanical protection device for equipment, which may cause higher risk of personal injury has effectively reduced the probability of personal injury accidents, resulting in an improved intrinsic safety of the equipment. The Company implemented the management and control of risks by classification as well as identification and mitigation of hidden hazards. By applying classification of safety risks as foundation and using inspection and mitigation of hidden hazards as tools, we can identify the risks from its source, control the risks, and timely discover potential defects, loopholes and failures in the risk control process through potential hazard inspection. The Company has started various forms of process optimization and improvement for process safety management, mechanical protection, lockout-tagout, occupational safety analysis, safety observation, emergency preparedness and response, fire protection, visualization, 5S organisation, high-risk working operation, road traffic safety, health safety knowledge education and promotion and other professional factors. The health and safety awareness of employees has been continually improved.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL CATEGORY *(Continued)*

Employment and labour aspect *(Continued)*

Percentage of Employees Trained

		2020	2019 <i>(Note)</i>
By gender	Male	98.2%	98.2%
	Female	97.8%	97.9%
By category	Management	90.0%	80.7%
	Executive	96.2%	90.9%
	Non-Executive	98.2%	98.6%

Average Number of Training Hours per Employee

		2020	2019 <i>(Note)</i>
By gender	Male	62.8 hours	75.8 hours
	Female	73.8 hours	73.4 hours
By category	Management	26.7 hours	17.6 hours
	Executive	55.3 hours	54.5 hours
	Non-Executive	68.6 hours	76.2 hours

Note: Including employees and their training hours in bulk pharmaceutical production base in Cangzhou for the year ended 31 December 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL CATEGORY *(Continued)*

Employment and labour aspect *(Continued)*

The Company pays great attention to the occupational health of its employees. It provides good working and production environment to employees, as well as regular body check and occupational health check for employees who have direct or indirect contact with the production process. In 2020, according to the current laws and regulations on occupational health, the department of safety set up effective facilities like dust collector, air extractor and sound insulation screen in the production line where there may be dust, odour or noise. To ensure the occupational health of employees, personal protective devices, such as earplugs, earmuffs, safety goggles, respiratory protective equipment with dust-proof and other functions and protective clothing, are also equipped in accordance with requirements to minimize potential adverse effects on the employees' health due to the hazardous factors in the production and operation sites. For those who are in positions with occupational hazard risk (those directly or indirectly exposed to statutory occupational disease hazards), it will regularly conduct physical examination of occupational health by occupational disease prevention and control agencies to ensure the health of the employees. Occupational health files have also been established for each employee who has received the occupational health check-up. The Company also strengthened our occupational health and safety management system and occupational health records. Meanwhile, regular occupational health trainings were conducted in accordance with the occupational health training program. Employees' awareness of their own health protection has been further strengthened.

The Company places great importance to providing environment, occupational health and safety management (EHS) training and education activities for employees, which are crucial to the sustainable development of the Group. The Company also endeavours to enhance the environmental, health and safety awareness of all employees and society as a whole. In this respect, the Company has established full time and part-time EHS management personnel, and regularly conducted the continuous improvement behaviour of "plan, implement, check and act (PDCA)". In March 2021, Shijiazhuang No. 4 Pharmaceutical Co., Ltd. was recognised as the "Advanced Unit in Emergency Management and Work Safety of Hebei Province in 2020" (「河北省二零二零年度應急管理與安全生產先進單位」) by Emergency Management and Work Safety Association of Hebei Province.

During year 2020, the Group has not breached the laws and regulations regarding employee recruitment, labour standards or health and safety.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL CATEGORY *(Continued)*

Operating and production aspect

The Group understands that a good relationship with its suppliers is crucial to the fulfilment of its short-term and long-term goals. The Group has been working continuously with its suppliers with the objectives of improving the quality of raw materials, and delivering high quality products to its customers. To reinforce the quality control of central tender for material procurement, the Group's companies in the PRC have implemented the "management system of tenders for material procurement" and "evaluation and management system of suppliers' quality" to specify the approval of suppliers for material procurement and the staff duties of each segment. In addition, by specifying the procedures such as the filing of material suppliers' quality, quality standard, on-site audit, quality assessment, inspections and trials as well as the handling of quality problems, the management of major raw materials and the environmental or social risk caused by suppliers have been stepped up, which has in turn strengthened the quality management of material supply.

The Company performed internal review at all levels regularly in accordance with the requirements of GMP to promptly identify problems throughout the actual production process and formulate practicable rectification and prevention measures. The Company has set up quality service department which was responsible for handling enquiries and follow up regarding customer feedbacks on quality, providing after-sales service on quality at all stages from pharmaceutical production, distribution to clinical usage. The department has set up a comprehensive after-sales service system and product-tracking system, including quality information feedback, assistance on recall of pharmaceutical products, quality tracking on substandard products and supervision of adverse reaction on pharmaceutical products. It has also developed a corresponding management system and standardised operation procedures in order to respond to different kinds of complaints on the market and customer enquiries on quality information in a timely manner. For any updates relating to product quality or legislation, the Company will arrange staff training to ensure production and operation are in accordance with the new regulations as well as to provide customers with accurate information.

The Company also proactively participated in the inventory management of its customers to avoid return of goods due to overstock or sluggish inventory. For expired pharmaceutical products, the Company sought for a solution through active negotiation; as to inventory of expired pharmaceutical products, it strictly followed the "Substandard Pharmaceutical Products Management System" to determine, report and destroy the substandard pharmaceutical products. During year 2020, the Group has not breached the above laws and regulations regarding product responsibility.

Anti-corruption aspect

The Company strictly complied with the relevant national laws and regulations regarding anti-corruption such as the "Anti-Corruption and Bribery Law of the PRC" and the "Anti-Unfair Competition Law of the PRC". All unfair competition behaviours such as commercial bribery were prohibited in the sales and procurement processes, whereas employees at all levels were under strict supervision, management and training. The Company was dedicated to maintaining a sound competition environment and order in the pharmaceutical distribution industry through fair competition with its counterparts in the industry. During year 2020, the Group has not breached the above laws and regulations regarding anti-corruption.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL CATEGORY *(Continued)*

Community aspect

As an enterprise with a strong commitment to its social responsibilities, the Group has been dedicated to investing greater effort, physical, human and financial resources in its participation in social welfare activities, while ensuring the interest of shareholders and investors and the growth of the enterprise.

During year 2020, the Company was actively distributing epidemic prevention materials in response to the rampant novel coronavirus pneumonia epidemic, and donated RMB2.6 million worth of epidemic prevention drugs and disinfection materials, including Abidol Hydrochloride capsules, Moxifloxacin Hydrochloride & Sodium Chloride Injection as well as Compound Quaternary Ammonium Salt Disinfectant to organizations such as Tongji Medical College of Huazhong University of Science and Technology, Shennongjia Charity Association, Puyang Red Cross, Department of Industry and Information Technology of Yunnan Province as well as various people's hospitals across the country. During the year, the Company donated RMB1.8 million to social charitable foundation for projects related to education and construction for healthcare.

The Group believes that the commitment on social responsibilities shall be fully borne by enterprises. As an enterprise with integrity and social responsibility, the Group should stand at the forefront for the community and shoulder the responsibility for business, social and ecological civilization in the course of business growth and the protection of interest for pharmaceutical market and end-users, to achieve a balance between benefit and obligation and to fulfil the responsibility as a "corporate citizen".

In the adherence to its operational philosophy of "Openness basing on sincerity helps people by quality", the Group eagerly took up and performed its corporate social responsibilities to make a greater contribution to the harmonious development of society, economy and environment.

REPORT OF THE DIRECTORS

The Board of Directors (the “Board”) of SSY Group Limited (the “Company”) present their report together with the audited financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 13 to the financial statements.

BUSINESS REVIEW

Discussions and reviews of the Group’s business are contained in the Management Discussion and Analysis as set out on pages 9 to 14. These discussions form part of this Report of the Directors.

SEGMENT INFORMATION

An analysis of the Group’s revenue and results by business segments for the year ended 31 December 2020 is set out in note 4 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on pages 58 to 59.

DIVIDENDS

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

For the year ended 31 December 2020, an interim dividend of HK\$0.05 per share was declared on 25 August 2020 and paid on 23 September 2020 (2019: HK\$0.05 per share). The Board recommended a final dividend of HK\$0.05 per share (2019: HK\$0.06 per share) which, together with the interim dividend, will result in total dividends of HK\$0.10 per share for the year ended 31 December 2020 (2019: HK\$0.11 per share). The payment of the final dividend is subject to the approval in the forthcoming annual general meeting.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 140.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in the consolidated statement of changes in equity and in note 25(c) to the financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 25(a) to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2020, the Company had distributable reserves of approximately HK\$320,224,000 (2019: HK\$424,629,000) calculated in accordance with the Companies Law of the Cayman Islands. This includes the Company's share premium account of approximately HK\$299,776,000 (2019: HK\$417,589,000) which is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Board considers that purchase of its shares by the Company under suitable market condition and funding arrangement will enhance net asset value and/or earnings per share of the Company, and thus will benefit the Company and the shareholders as a whole. Save for the purchase of 20,598,000 shares which details are set out in the next paragraph, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the year ended 31 December 2020.

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

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

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

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

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

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Continued)

On 15 April 2016, the Company granted 122,000,000 share options to Mr. Qu Jiguang, the Chairman and the CEO of the Company, under Share Option Scheme, representing about 4.31% of the issued share capital as at the date immediately before share options were granted. The exercise price was HK\$2.58. The exercisable period was from 15 April 2016 to 14 April 2021. Such grant of share options was approved by the independent shareholders at the annual general meeting held on 27 May 2016. During the year ended 31 December 2020, a total of 32,000,000 (2019: 20,000,000) share options were exercised by Mr. Qu Jiguang and, as a result, a total of 32,000,000 (2019:20,000,000) ordinary shares of the Company was issued. As at 31 December 2020, all of the share options granted on 15 April 2016 have been exercised.

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

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

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

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

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

REPORT OF THE DIRECTORS

RESTRICTED SHARE AWARD SCHEME

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

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

Since the adoption of the Restricted Share Award Scheme and as at 31 December 2020, no share has been purchased by the trustee and no share has been awarded to any Selected Participants pursuant to the Restricted Share Award Scheme.

DIRECTORS

The Directors during the year ended 31 December 2020 and up to the date of this Annual Report were:

Executive Directors

Mr. Qu Jiguang
Mr. Wang Xianjun
Mr. Su Xuejun

Non-executive Director

Mr. Feng Hao

Independent Non-executive Directors

Mr. Wang Yibing
Mr. Leung Chong Shun
Mr. Chow Kwok Wai

REPORT OF THE DIRECTORS

DIRECTORS *(Continued)*

Pursuant to Article 87 of the Company's articles of association, Mr. Wang Xianjun, Mr. Su Xuejun and Mr. Chow Kwok Wai will retire from office by rotation in the forthcoming annual general meeting. All of them, being eligible, offer themselves for re-election in the forthcoming annual general meeting.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules, and the Company considers the independent non-executive Directors to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out on pages 15 to 16.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service agreement with the Company for an initial term of 3 years commencing from the appointment date renewable for successive terms of 3 years commencing from the day next after the expiry of the then current term of the appointment.

Save as disclosed above, none of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

PERMITTED INDEMNITY

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and Senior Management arising out of corporate activities. Every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

MATERIAL INTERESTS OF DIRECTORS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 28 to the financial statements, no transaction, arrangement or contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which Directors of the Company had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the interest of Directors of the Company in businesses which was likely to compete with the Group during the year ended 31 December 2020 and as at 31 December 2020 were as follows:

Non-executive Director, Mr. Feng Hao (who was appointed on 24 November 2017), has been a deputy general manager and the secretary to the board of directors of Sichuan Kelun Pharmaceutical Co., Ltd. ("Sichuan Kelun", a substantial shareholder of the Company) since April 2014. Sichuan Kelun is engaged in the same industry of manufacturing and selling of intravenous infusion solution as the Group. Although some of the business conducted by Sichuan Kelun are similar to those conducted by the Group, most of them are of different kinds of products and/or at different locations. The Group has been operating independently of, and at the arm's length from, the businesses of Sichuan Kelun. Furthermore, all directors of the Company are reminded of their fiduciary duties to the Group and that they must, in the performance of their duties of directors, avoid actual and potential conflicts of interest and duty. There are three Independent non-executive Directors in the Board to ensure that the interests of the general shareholders are adequately represented. Therefore, the Board is of the view that the interests of the Group and of the shareholders as a whole are properly safeguarded.

Save as disclosed above, as at 31 December 2020 and up to the date of this Annual Report, none of the Directors are considered to be in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

As at 31 December 2020, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules once the shares are listed, were as follows:

Name of Director	Capacity	Long/short position	Number of shares and underlying shares held	Approximate percentage of the issued share capital of the Company
Mr. Qu Jiguang	Beneficial owner Interest in a controlled corporation (Note 1)	Long	277,746,000	9.12%
		Long	766,332,000	25.18%
Mr. Wang Xianjun	Beneficial owner	Long	24,416,000	0.80%
Mr. Su Xuejun	Beneficial owner	Long	24,416,000	0.80%

Note:

1. These shares were registered in the name of and beneficially owned by China Pharmaceutical Company Limited ("CPCL"). CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the shares held by CPCL.

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executives of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company or the Stock Exchange pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (b) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed under the sections headed "Directors' and chief executives' interests in the shares" and "Share option scheme", at no time during the year ended 31 December 2020 were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN THE SHARES

As at 31 December 2020, the register of substantial shareholders required to be kept by the Company under section 336 of the SFO shows that the Company had been notified of the following interests, being 5% or more in the issued share capital and underlying shares of the Company.

Name of Shareholder	Capacity	Long/short position	Number of shares and underlying shares held	Approximate percentage of the issued share capital of the Company
Mr. Qu Jiguang	Beneficial owner Interest in a controlled corporation (Note 1)	Long	277,746,000	9.12%
		Long	766,332,000	25.18%
CPCL (Note 1)	Beneficial owner	Long	766,332,000	25.18%
Sichuan Kelun Pharmaceutical Co., Ltd (四川科倫藥業股份有限公司)	Interest in a controlled corporation (Note 2) Beneficial owner	Long	446,852,000	14.68%
		Long	159,870,000	5.25%
Kelun International Development Co., Ltd (科倫國際發展有限公司) (Note 2)	Beneficial owner	Long	446,852,000	14.68%
UBS Group AG (Note 3)	Interest in a controlled corporation	Long	328,098,611	10.78%

Notes:

- These shares were registered in the name of and beneficially owned by CPCL. CPCL is held as to 72.93% by Mr. Qu Jiguang and as to 27.07% by other shareholders. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the shares held by CPCL.
- These shares were registered in the name of and beneficially owned by Kelun International Development Co., Ltd. (科倫國際發展有限公司). Kelun International Development Co., Ltd. (科倫國際發展有限公司) is held as to 100% by Sichuan Kelun Pharmaceutical Co., Ltd. (四川科倫藥業股份有限公司).
- Among the interests of UBS Group AG in the Company, 2,296,906 shares were held through cash settled derivatives (off exchange).

REPORT OF THE DIRECTORS

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”). Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2020.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2020, the Group’s revenue attributable to its largest customer and its five largest customers are less than 10% and 30% respectively of its total revenue, and the Group’s purchases attributable to its largest supplier and its five largest suppliers are less than 10% and 30% respectively of its total purchases.

None of the Directors, their associates or any shareholders (which owns more than 5% of the Company’s shareholding to the knowledge of the Directors) has interests in the Group’s five largest customers and suppliers during the year.

CONNECTED TRANSACTIONS

During the year ended 31 December 2020, certain related party transactions as disclosed in note 28 to the financial statements also fell under the definition of “connected transactions” or “continuing connected transaction” in Chapter 14A of the Listing Rules, details of which are set out below in compliance with the requirements of Chapter 14A of the Listing Rules.

Continuing connected transaction — Master Sale and Purchase Agreement with Sichuan Kelun

Pursuant to a Master Sale and Purchase Agreement entered on 25 April 2018 between the Company and Sichuan Kelun, a substantial shareholder (as defined under the Listing Rules) of the Company, the Company agreed to purchase certain materials from Kelun Group (Sichuan Kelun itself and its subsidiaries) and the Company agrees to sell certain materials to Kelun Group for a term of three years from 1 January 2018 to 31 December 2020. The unit price of the materials purchased by the Company was calculated based on the prevailing market price from time to time as determined by reference to at least two contemporaneous transactions with other unrelated third-party suppliers for similar materials in similar quantities and specifications. The unit price of the materials sold by the Company was determined by reference to the price lists of the relevant materials adopted by the Company and generally applicable to all customers of the Company at the material time. As stated in the Company’s announcements dated 30 September 2019 and 24 April 2020, the annual cap for the aggregate amount of purchases to be paid by the Company under the Master Sale and Purchase Agreement for the year ended 31 December 2019 and 31 December 2020 were revised respectively while the other annual caps as stated in the Master Sale and Purchase Agreement remained unchanged.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS *(Continued)*

Continuing connected transaction — Master Sale and Purchase Agreement with Sichuan Kelun *(Continued)*

For the year ended 31 December 2020, total purchase from Kelun Group by the Group and total sales to Kelun Group by the Group were RMB61,553,000 and RMB21,317,000 respectively, which did not exceed the annual caps of RMB196,520,000 and RMB76,080,000 respectively prescribed for the year ended 31 December 2020 under the Master Sale and Purchase Agreement.

The independent non-executive Directors have confirmed that the aforesaid continuing connected transactions were entered into (a) in the ordinary and usual course of business of Group; (b) on normal commercial terms or better; and (c) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Group's shareholders as a whole.

The Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued an unqualified letter containing their findings and conclusions to the Board of Directors. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

MANAGEMENT CONTRACT

No contract for management and administration of the whole or any substantial part of any business of the Group was entered into or existed during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the latest practicable date, being 30 March 2021, and at all times during the year ended 31 December 2020.

CORPORATE GOVERNANCE

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's corporate governance practices are set out in the Corporate Governance Report on pages 17 to 25.

AUDITOR

The consolidated financial statements for the year have been audited by KPMG. The audited consolidated financial statements have been reviewed by the Audit Committee of the Company.

REPORT OF THE DIRECTORS

ANNUAL GENERAL MEETING

The 2021 Annual General Meeting of the Company will be held at 2:00 p.m. on 21 May 2021 at Rooms 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong and a notice of annual general meeting will be published and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 17 May 2021 to Friday, 21 May 2021, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Friday, 14 May 2021.

RECORD DATE FOR FINAL DIVIDEND

In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting, all properly completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Wednesday, 26 May 2021 which is the Record Date for the proposed final dividend. The proposed final dividend is expected to be paid on or about Tuesday, 8 June 2021.

On behalf of the Board

Qu Jiguang
Chairman

Hong Kong, 30 March 2021

INDEPENDENT AUDITOR'S REPORT



**Independent auditor's report
to the shareholders of SSY Group Limited**
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of SSY Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 58 to 139, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT



Timing of revenue recognition

Refer to note 4 to the consolidated financial statements and the accounting policies on page 87 and 88.

The Key Audit Matter

The Group's revenue principally comprises sales of intravenous infusion solution to a significant number of distributors and hospitals.

The Group enters into framework distribution agreements with certain of its major distributors which specify the terms of sales relating to pricing, goods acceptance and return, as well as credit terms. Sales to the remainder of the Group's customers are based on terms and conditions included in purchase orders. The Group's sales contracts do not include terms relating to discounts or rebates and do not permit sales returns except for where the products are damaged or defective.

The Group recognises revenue at the point in time when control of the goods is transferred to the customer. Depending on the terms of the contract, this point in time will either be when the customer collects the goods from the warehouse, when the goods are delivered to a location designated by the customer or when the goods are delivered to and have been accepted by the customers.

We identified the timing of revenue recognition as a key audit matter because of the differing terms of trade offered by the Group to its customers which increases the risk that revenue may be recognised before the control of the goods has been transferred to the customers and because the impact of any errors in the timing of revenue recognition could be material to the consolidated financial statements.

How the matter was addressed in our audit

Our audit procedures to assess the timing of revenue recognition included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition;
- inspecting a sample of framework distribution agreements and purchase orders with key customers to identify terms and conditions relating to goods acceptance and the right of return and assessing the Group's policies in respect of the timing of recognition of revenue with reference to the requirements of the prevailing accounting standards;
- comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying documentation, including goods delivery notes and goods acceptance notes, to assess whether revenue had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the framework distribution agreements or purchase orders; and
- inspecting manual journal entries relating to revenue raised during the year which were considered to be material or met other specific risk-based criteria, enquiring of management the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

INDEPENDENT AUDITOR'S REPORT



Expected credit loss ("ECL") allowance for trade receivables

Refer to notes 15 and 26(a) to the consolidated financial statements and the accounting policies on pages 76 to 79.

The Key Audit Matter

As at 31 December 2020, the gross amount of the Group's trade receivables totalled HK\$1,628.5 million, against which HK\$8.6 million for expected credit losses was made. The carrying value of the Group's trade receivables represented approximately 17.5% of the total assets as at 31 December 2020.

The Group's loss allowance is measured at an amount equal to ECL of the trade receivables based on management's estimated loss rates for each category of trade receivables grouped according to the shared credit risk characteristics. The estimated loss rates take into account the aging of the trade receivables, overdue balances, information regarding the ability and intent of the debtor to pay, historical data on default rates, current market conditions and forward-looking information.

Management is required to apply judgement in assessing the loss allowance for trade receivables under the ECL model. The ability of the debtors to repay the Group depends on shared credit risk characteristics of trade receivables groups and market conditions which involves inherent uncertainty.

We identified the expected credit loss allowance for trade receivables as a key audit matter because determining the level of the loss allowance requires the exercise of significant management judgement which is inherently subjective.

How the matter was addressed in our audit

Our audit procedures to assess the expected credit loss allowance for trade receivables included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and the estimation of the expected credit loss allowance;
- evaluating the Group's policy for estimating the credit loss allowance with reference to the requirements of the prevailing accounting standard;
- re-performing the calculation of the loss allowance as at 31 December 2020 based on the Group's credit loss allowance policies;
- assessing the trade receivables ageing report by group based on shared credit risk characteristics and the days past due by comparing the details of individual items with underlying invoices on a sample basis;
- obtaining an understanding of the basis of management's approach to measuring ECLs of trade receivable balances and evaluating the loss allowance made by management with reference to the industry in which the debtors are operating, customer credit risk characteristics, ageing of receivables, overdue balances, historical and post year-end payment records; and
- assessing the appropriateness of management's estimates of loss allowance by examining the information used by management to derive such estimates, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current market conditions and forward-looking information.

INDEPENDENT AUDITOR'S REPORT



Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

INDEPENDENT AUDITOR'S REPORT



Auditor's responsibilities for the audit of the consolidated financial statements *(continued)*

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT



Auditor's responsibilities for the audit of the consolidated financial statements *(continued)*

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Tse, Wong Pui.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	Note	2020 HK\$'000	2019 HK\$'000
Revenue	4	4,260,898	4,635,675
Cost of sales		(1,552,523)	(1,758,842)
Gross profit		2,708,375	2,876,833
Other income	5	71,717	157,886
Selling and distribution costs		(1,613,294)	(1,261,406)
General and administrative expenses		(408,240)	(378,929)
Impairment loss on trade, bill and other receivables		324	(2,728)
Profit from operations		758,882	1,391,656
Finance income		17,805	24,755
Finance costs		(51,472)	(55,268)
Finance costs — net	6(a)	(33,667)	(30,513)
Profit before taxation	6	725,215	1,361,143
Income tax	7	(114,396)	(223,838)
Profit for the year		610,819	1,137,305
Other comprehensive income for the year, net of nil tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency		418,623	(130,803)
Other comprehensive income for the year		418,623	(130,803)
Total comprehensive income for the year		1,029,442	1,006,502

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	Note	2020 HK\$'000	2019 HK\$'000
Profit attributable to:			
Equity shareholders of the Company		611,971	1,136,101
Non-controlling interests		(1,152)	1,204
Profit for the year		610,819	1,137,305
Total comprehensive income attributable to:			
Equity shareholders of the Company		1,014,508	1,009,287
Non-controlling interests		14,934	(2,785)
Total comprehensive income for the year		1,029,442	1,006,502
Earnings per share			
	10		
— Basic		HK\$0.2019	HK\$0.3755
— Diluted		HK\$0.2012	HK\$0.3725

The notes on pages 64 to 139 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 25(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	Note	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Non-current assets			
Property, plant and equipment	11	3,836,141	3,414,398
Right-of-use assets	11	333,382	263,652
Intangible assets	12	685,389	545,509
Deferred tax assets	23(b)	20,863	13,022
Pledged bank deposits and fixed deposits	17	119,335	122,798
		4,995,110	4,359,379
Current assets			
Inventories	14	638,301	506,923
Trade and bills receivables	15	1,813,313	1,803,279
Prepayments, deposits and other receivables	16	294,709	230,070
Pledged bank deposits and time deposits	17	66,369	7,262
Cash and cash equivalents	18	1,445,905	817,429
		4,258,597	3,364,963
Current liabilities			
Borrowings	19	1,327,115	816,915
Trade payables	20	240,562	171,798
Contract liabilities		45,929	47,411
Lease liabilities	22	3,664	2,394
Accruals and other payables	21	469,591	475,283
Income tax payable	23(a)	30,883	63,207
		2,117,744	1,577,008
Net current assets		2,140,853	1,787,955
Total assets less current liabilities		7,135,963	6,147,334

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	Note	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Non-current liabilities			
Borrowings	19	1,099,957	878,942
Lease liabilities	22	4,610	904
Deferred tax liabilities	23(b)	19,348	24,203
Deferred revenue	24	96,837	56,137
		1,220,752	960,186
NET ASSETS		5,915,211	5,187,148
CAPITAL AND RESERVES			
Share capital	25(c)	67,682	67,454
Reserves		5,584,354	4,918,968
Total equity attributable to equity shareholders of the Company		5,652,036	4,986,422
Non-controlling interests		263,175	200,726
TOTAL EQUITY		5,915,211	5,187,148

Approved and authorised for issue by the board of directors on 30 March 2021.

Qu Jiguang
Director

Wang Xianjun
Director

The notes on pages 64 to 139 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2020
(Expressed in Hong Kong dollars)

Note	Attributable to equity shareholders of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Share-based payment reserve HK\$'000	Currency translation differences HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance at 1 January 2019	67,088	614,946	177,525	240,147	11,440	(230,516)	3,357,802	4,238,432	139,814	4,378,246
Changes in equity for 2019:										
Profit for the year	—	—	—	—	—	—	1,136,101	1,136,101	1,204	1,137,305
Other comprehensive income	—	—	—	—	—	(126,814)	—	(126,814)	(3,989)	(130,803)
Total comprehensive income	—	—	—	—	—	(126,814)	1,136,101	1,009,287	(2,785)	1,006,502
Capital contribution from non-controlling interests and acquisition of additional interests in subsidiaries	—	—	(343)	—	—	—	—	(343)	63,697	63,354
Shares issued under share option scheme	25(c)(iii)	400	55,600	—	—	(4,400)	—	51,600	—	51,600
Dividends paid to equity shareholders of the Company	25(b)	—	(242,839)	—	—	—	(59,563)	(302,402)	—	(302,402)
Purchase and cancellation of own shares	25(c)(ii)	(34)	(10,118)	—	—	—	—	(10,152)	—	(10,152)
Transfer to statutory reserve	—	—	—	6,824	—	—	(6,824)	—	—	—
Balance at 31 December 2019	67,454	417,589	177,182	246,971	7,040	(357,330)	4,427,516	4,986,422	200,726	5,187,148
Balance at 1 January 2020	67,454	417,589	177,182	246,971	7,040	(357,330)	4,427,516	4,986,422	200,726	5,187,148
Changes in equity for 2020:										
Profit for the year	—	—	—	—	—	—	611,971	611,971	(1,152)	610,819
Other comprehensive income	—	—	—	—	—	402,537	—	402,537	16,086	418,623
Total comprehensive income	—	—	—	—	—	402,537	611,971	1,014,508	14,934	1,029,442
Capital contribution from non-controlling interests	13	—	—	268	—	—	—	268	47,515	47,783
Shares issued under share option scheme	25(c)(iii)	640	88,960	—	—	(7,040)	—	82,560	—	82,560
Dividends paid to equity shareholders of the Company	25(b)	—	(108,323)	—	—	—	(224,537)	(332,860)	—	(332,860)
Purchase and cancellation of own shares	25(c)(ii)	(412)	(98,450)	—	—	—	—	(98,862)	—	(98,862)
Transfer to statutory reserve	—	—	—	5,751	—	—	(5,751)	—	—	—
Balance at 31 December 2020	67,682	299,776	177,450	252,722	—	45,207	4,809,199	5,652,036	263,175	5,915,211

The notes on pages 64 to 139 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	Note	2020 HK\$'000	2019 HK\$'000
Operating activities			
Cash generated from operations	18(b)	720,290	905,236
Interest paid		(54,070)	(52,903)
Income tax paid	23(a)	(161,661)	(206,376)
Net cash generated from operating activities		504,559	645,957
Investing activities			
Purchase of property, plant and equipment		(214,688)	(761,451)
Purchase of intangible assets		(106,836)	(74,549)
Proceeds from disposal of property, plant and equipment		333	55
Government grant received related to property, plant and equipment		30,493	19,659
Payments for acquisition of additional interests in a subsidiary		—	(1,394)
Interest received		22,977	23,367
(Increase)/decrease of time deposits and fixed deposits		(44,665)	68,080
Net cash used in investing activities		(312,386)	(726,233)
Financing activities			
Proceeds from exercise of share options	25(c)(iii)	82,560	51,600
Payments for repurchase of own shares of the Company	25(c)(ii)	(98,862)	(10,152)
Capital element of lease rentals paid	18(c)	(3,506)	(3,343)
Interest element of lease rentals paid	18(c)	(313)	(238)
Proceeds from borrowings	18(c)	1,664,273	920,441
Repayments of borrowings	18(c)	(992,722)	(706,125)
Dividends paid to equity shareholders of the Company	25(b)	(332,860)	(302,402)
Proceeds from capital contribution from non-controlling interests	13	47,783	64,748
Net cash generated from financing activities		366,353	14,529
Net increase/(decrease) in cash and cash equivalents		558,526	(65,747)
Cash and cash equivalents at 1 January		817,429	902,062
Effect of foreign exchange rate changes		69,950	(18,886)
Cash and cash equivalents at 31 December	18(a)	1,445,905	817,429

The notes on pages 64 to 139 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 GENERAL INFORMATION

SSY Group Limited (the “Company”) and its subsidiaries (together, the “Group”) are engaged in the research, development, manufacturing and selling of a wide range of finished medicines, bulk pharmaceutical products 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.

The Company is an exempted company with limited liability established under the Companies Law, Cap.22 (Law 3 of 1961, as combined and revised) of Cayman Islands. The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company’s shares have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 20 December 2005.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies hereunder.

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

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

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

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

(d) Subsidiaries and non-controlling interests

(i) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

— Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries and non-controlling interests *(continued)*

(i) Consolidation *(continued)*

— Business combinations *(continued)*

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts represented by subsidiaries have been adjusted to conform with the Group's accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries and non-controlling interests *(continued)*

(i) Consolidation *(continued)*

— *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transaction that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

— *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(ii) *Company's statement of financial position*

Investments in subsidiaries are accounted for at cost less impairment (see note 2(j)). Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required when there is any indication that the investment is impaired or upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's most senior executive management for the purpose of allocating resources and assessing performance of the operating segments.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(f) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of the Company and New Orient Investments Pharmaceutical Holding (Hong Kong) Limited is HK dollars ("HK\$") and the functional currency of other Group's companies is Renminbi ("RMB"). The consolidated financial statements are presented in HK\$.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of profit or loss and other comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of profit or loss and other comprehensive income within 'other income'.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Foreign currency translation (continued)

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each financial position presented are translated at the closing rate at the end of the reporting period;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. Currency translation differences arising are recognised in other comprehensive income.

(g) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

— Buildings	10 — 40 years
— Plant, machinery and tools	5 — 10 years
— Furniture, fixtures, office equipment and others	5 — 10 years
— Vehicles	5 — 10 years

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Property, plant and equipment *(continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 2(j)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other income', in the consolidated statement of profit or loss and other comprehensive income.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, costs of plant and machinery, and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for the intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

(h) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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.

(i) *As a lessee*

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.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. 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. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Leased assets *(continued)*

(i) As a lessee *(continued)*

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 (see note 2(j)).

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.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leased assets (continued)

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised on a straight-line basis over the period of the lease.

(i) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGUs containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Trademarks and patents

Separately acquired trademarks and patents are shown at historical cost less accumulated amortisation and accumulated impairment losses, if any. Trademarks and patents acquired in a business combination are recognised at fair value at the date of acquisition. Trademarks and patents have finite useful lives. Amortisation is calculated using the straight-line method to allocate the costs over their estimated useful lives, as follows:

—	Trademarks	50 years
—	Patents	7 — 10 years

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Intangible assets *(continued)*

(iii) Customer relationships

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date attributable to customer base or existing contractual bids with customers taken over in connection with business combinations. Customer relationships have finite useful lives. Amortisation is calculated using the straight-line method to allocate their costs over their estimated useful lives of 5 — 5.25 years.

(iv) Computer software

Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

(v) Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use it;
- there is an ability to use the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding ten years.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment, including right-of-use assets;
- intangible assets;
- goodwill; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— **Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— **Recognition of impairment losses**

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— **Reversals of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 26(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) *Investments other than equity investments*

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(aa)).
- FVOCI — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(ii) *Equity investments*

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2(bb).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

(m) Credit losses from financial instruments, contract assets and lease receivables

The Group recognises a loss allowance for ECLs on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables, which are held for the collection of contractual cash flows which represent solely payments of principal and interest);
- contract assets as defined in HKFRS 15 (see note 2(o)); and
- lease receivables.

Other financial assets measured at fair value, including units in bond funds, equity and debt securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- lease receivables: discount rate used in the measurement of the lease receivable;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Credit losses from financial instruments, contract assets and lease receivables *(continued)*

Measurement of ECLs *(continued)*

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Credit losses from financial instruments, contract assets and lease receivables *(continued)*

Significant increases in credit risk *(continued)*

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 2(aa) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Credit losses from financial instruments, contract assets and lease receivables *(continued)*

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(n) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in process comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(o) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see note 2(z)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in note 2(m) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2(p)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2(z)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(p)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Contract assets and contract liabilities *(continued)*

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2(aa)).

(p) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2(o)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(m)).

(q) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 2(m).

(r) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(s) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Borrowings

Borrowings are measured initially at fair value less transaction costs. Borrowings are subsequently stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 2(u)).

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(u) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss and other comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the places where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

— Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

— Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Current and deferred income tax *(continued)*

(iii) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(w) Employee benefits

(i) *Pension obligations*

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined contribution and defined benefit plans.

— *Defined contribution plan*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group has arranged for its Hong Kong employees to join the Hong Kong Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group and its Hong Kong employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation, subject to a cap of HK\$1,500 per person per month and any excess contributions are voluntary. The Group has no further obligations for post-retirement benefit beyond the contributions.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Employee benefits (continued)

(i) Pension obligations (continued)

— Defined contribution plan (continued)

As stipulated by the rules and regulations in the PRC, the Group has participated in state-sponsored defined contribution retirement schemes for its employees in the PRC. The Group's employees make monthly contributions to the schemes at approximately 8% of the relevant income (comprising wages, salaries, allowances and bonus, and subject to a cap), while the Group contributes approximately 16% of such income and has no further obligations for the actual payment of post-retirement benefits beyond the contributions. The state-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

— Post-employment benefits

Some group companies provide post-employment benefits to their employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

The liability recognised in the financial position in respect of post-employment benefits is the present value of these benefits obligations at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs. These obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of these obligations is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related benefit obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The current service cost of the defined benefit plan, recognised in profit or loss in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognised immediately in profit or loss.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the consolidated statement of profit or loss and other comprehensive income.

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Employee benefits *(continued)*

(i) Pension obligations *(continued)*

— Post-employment benefits *(continued)*

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Share-based compensation

— Equity-settled share-based payment transactions

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Employee benefits *(continued)*

(ii) **Share-based compensation** *(continued)*

— *Share-based payment transactions among group entities*

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

(iii) **Employee leave entitlements**

Employee entitlements to annual leave are recognised when they are accrued to employees. A provision is made for the estimated liability for annual leave as a result of service rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(iv) **Bonus plan**

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(x) Provisions, contingent liabilities and onerous contracts

(i) **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one items included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Provisions, contingent liabilities and onerous contracts *(continued)*

(ii) *Contingent liabilities*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(iii) *Onerous contracts*

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(y) Government grants

Government grants in the form of subsidy or financial refund are recognised when there is a reasonable assurance that the Group will comply with the conditions attached to the grants and that the grants will be received.

Grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to assets are presented in the statement of financial position by setting up the grant as deferred revenue and recognised in profit or loss on a systematic basis over the useful life of the asset.

(z) Revenue

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Revenue (continued)

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method.

Further details of the Group's revenue and other income recognition policies are as follows:

- Revenue from the sale of goods is recognised upon the transfer of control of the goods to the customer, which generally coincides with the point in time when a group company has delivered products to the customer, the customer has taken possession of and accepted the products and collection of consideration is probable;
- Rental income is recognised on a straight-line basis over the terms of the leases; and
- Services income is recognised over time in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(aa) Interest income

Interest income is recognised using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(m)).

(bb) Dividend income

Dividend income is recognised when the right to receive payment is established.

(cc) Dividend distributions

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(dd) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. As the future is inherently uncertain, actual results may differ from these estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

The Group's management tests annually whether goodwill has suffered any impairment. In accordance with the accounting policy stated in note 2(j), the recoverable amount of CGUs has been determined based on the higher of value in use and fair value less costs of disposal.

The Group measured the value in use by discounting the future estimated cash flow deriving from the CGUs. These calculations required the Group to estimate the expected future cash flows from the CGUs and also to apply a suitable discount rate in order to calculate the present value of those cash flows.

There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budgets. Key assumptions include the growth rates and selection of discount rates to reflect the risks involved. Management prepares the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

(b) Impairment of receivables

The Group's management determines the provision for expected credit losses on trade, bills and other receivables based on an assessment of the present value of all expected cash shortfalls. These estimates are based on the information about past events, current conditions and forecasts of future economic conditions. The Group's management reassesses the provision at each reporting period end.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of changes in industry environment and competitor actions. Management reassesses the estimates at each reporting period end.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(d) Impairment of property, plant and equipment, right-of-use assets and intangible assets

Property, plant and equipment, right-of-use assets and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related assets values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs of disposal or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group derives revenue principally from the sale of finished medicines of mainly intravenous infusion solution to hospitals and distributors, bulk pharmaceutical products and medical materials.

(i) Disaggregation of revenue

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

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 4(b).

The geographical analysis on revenue above includes rental income from external customers in the PRC for the year ended 31 December 2020 of HK\$270,000 (2019: HK\$244,000). The directors have determined that no geographical segment information of specified non-current assets is presented as over 95% of the non-current assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

For the year ended 31 December 2020, no customer with whom transactions have exceeded 10% of the Group's revenue.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting

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

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets. Unallocated assets mainly comprise corporate cash. Segment liabilities include operating liabilities. Unallocated liabilities mainly comprise corporate borrowings.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is profit from operations.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2020 and 2019 is set out below.

	2020			
	Intravenous infusion solution and others HK\$'000	Medical materials HK\$'000	Unallocated HK\$'000	Total HK\$'000
Disaggregated by timing of revenue recognition				
Point in time	4,140,329	119,049	—	4,259,378
Over time	1,250	270	—	1,520
Revenue from external customers	4,141,579	119,319	—	4,260,898
Inter-segment revenue	17,969	128,362	—	146,331
Reportable segment revenue	4,159,548	247,681	—	4,407,229
Operating profit or loss/ segment results				
Finance income	776,663	(174)	(17,607)	758,882
Finance costs	17,301	23	481	17,805
	(33,479)	(1)	(17,992)	(51,472)
Profit/(loss) before taxation	760,485	(152)	(35,118)	725,215
Income tax	(113,075)	(1,321)	—	(114,396)
Reportable segment profit/(loss) for the year	647,410	(1,473)	(35,118)	610,819
Depreciation and amortisation for the year	293,409	22,003	2,928	318,340
(Reversal of)/provision for impairment of receivables	(696)	372	—	(324)
Total assets/reportable segment assets	8,688,670	343,294	221,743	9,253,707
Additions to non-current assets	639,589	18,006	9,853	667,448
Total liabilities/reportable segment liabilities	2,335,141	24,228	979,127	3,338,496

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (continued)

(b) Segment reporting (continued)

	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	4,469,404	161,318	—	4,630,722
Over time	4,715	238	—	4,953
Revenue from external customers	4,474,119	161,556	—	4,635,675
Inter-segment revenue	21,564	169,939	—	191,503
Reportable segment revenue	4,495,683	331,495	—	4,827,178
Operating profit or loss/ segment results	1,402,078	23,385	(33,807)	1,391,656
Finance income	24,610	81	64	24,755
Finance costs	(32,521)	(453)	(22,294)	(55,268)
Profit/(loss) before taxation	1,394,167	23,013	(56,037)	1,361,143
Income tax	(217,798)	(6,040)	—	(223,838)
Reportable segment profit/ (loss) for the year	1,176,369	16,973	(56,037)	1,137,305
Depreciation and amortisation for the year	257,262	19,809	271	277,342
Write-off of internally generated research and development costs	8,943	—	—	8,943
Provision for impairment of receivables	2,692	36	—	2,728
Total assets/reportable segment assets	7,366,351	350,833	7,158	7,724,342
Additions to non-current assets	929,254	21,364	—	950,618
Total liabilities/reportable segment liabilities	1,989,746	24,004	523,444	2,537,194

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
Government grants	62,600	17,041
Net gain on disposal of property, plant and equipment	2,055	132,036
Others	7,062	8,809
	71,717	157,886

Government grants mainly represent subsidy income received from various government organisations to compensate the Group's research and development expenditures, and other incentives to support the operations of the Group.

6 PROFIT BEFORE TAXATION

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

(a) Finance income and costs

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

6 PROFIT BEFORE TAXATION (continued)

(b) Staff costs

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

(c) Other items

	2020 HK\$'000	2019 HK\$'000
Research and development costs (other than staff costs, depreciation and amortisation expenses)	176,174	140,490
Less: Costs capitalised into intangible assets	(100,492)	(65,139)
	75,682	75,351
Amortisation [#]		
— intangible assets (note 12)	16,927	15,814
Less: Amount capitalised as development costs	(984)	(994)
	15,943	14,820
Depreciation charges [#]		
— owned property, plant and equipment (note 11(a))	290,637	251,956
— right-of-use assets (note 11(a))	10,776	9,572
(Reversal of)/provision for impairment losses		
— trade and bills receivables (note 26(a))	(332)	2,725
— other receivables	8	3
Write-off of internally generated research and development costs (note 12)	—	8,943
Auditors' remuneration — audit services	2,500	2,500
Cost of inventories [#] (note 14(b))	1,548,862	1,721,736
Other expenses		
— transportation expenses	363,129	434,694
— utility expenses	230,379	130,348
— advertising expenses	202,027	203,785
— marketing and promotion expenses	933,395	499,887
— travelling, meeting and entertainment expenses	41,684	62,646
— surcharges and other tax expenses	55,421	63,525

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

6 PROFIT BEFORE TAXATION *(continued)*

(c) Other items *(continued)*

Cost of inventories includes HK\$446,117,000 (2019: HK\$444,883,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

7 INCOME TAX

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2020 HK\$'000	2019 HK\$'000
Current tax — the PRC Corporate Income Tax ("CIT")	127,160	221,235
Deferred tax — origination and reversal of temporary differences	(12,764)	2,603
	114,396	223,838

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

7 INCOME TAX (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

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

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

Name	2020						Total HK\$'000
	Directors' fees HK\$'000	Salaries HK\$'000	Discretionary bonuses (a) HK\$'000	Housing allowance HK\$'000	Estimated money value of other benefits (b) HK\$'000	Retirement scheme contributions HK\$'000	
<i>Executive directors</i>							
Mr. Qu Jiguang	—	6,675	—	—	—	15	6,690
Mr. Wang Xianjun	—	1,998	—	—	—	18	2,016
Mr. Su Xuejun	—	879	516	—	84	44	1,523
<i>Independent non-executive directors</i>							
Mr. Wang Yibing	228	—	—	—	—	—	228
Mr. Leung Chong Shun	228	—	—	—	—	—	228
Mr. Chow Kwok Wai	228	—	—	—	—	—	228
<i>Non-executive director</i>							
Mr. Feng Hao	228	—	—	—	—	—	228
	912	9,552	516	—	84	77	11,141

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

8 DIRECTORS' EMOLUMENTS (continued)

Name	2019							Total HK\$'000
	Directors' fees HK\$'000	Salaries HK\$'000	Discretionary bonuses (a) HK\$'000	Housing allowance HK\$'000	Estimated money value of other benefits (b) HK\$'000	Retirement scheme contributions HK\$'000		
<i>Executive directors</i>								
Mr. Qu Jiguang	—	6,216	6,350	456	—	18		13,040
Mr. Wang Xianjun	—	1,998	300	—	—	18		2,316
Mr. Su Xuejun	—	828	663	—	88	52		1,631
<i>Independent non-executive directors</i>								
Mr. Wang Yibing	228	—	—	—	—	—		228
Mr. Leung Chong Shun	228	—	—	—	—	—		228
Mr. Chow Kwok Wai	228	—	—	—	—	—		228
<i>Non-executive director</i>								
Mr. Feng Hao	228	—	—	—	—	—		228
	912	9,042	7,313	456	88	88		17,899

(a) Discretionary bonuses are determined based on the business performance of selected subsidiaries of the Group but are limited to a prescribed percent of the net profit of these subsidiaries, which is subject to the approval of the board of directors of the Company.

(b) Other benefits include leave pay and medical insurance, etc..

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2019: three) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2019: two) individuals are as follows:

	2020 HK\$'000	2019 <i>HK\$'000</i>
Salaries and other benefits	1,636	1,565
Discretionary bonuses	206	399
Retirement scheme contributions	62	70
	1,904	2,034

The emoluments of the two (2019: two) individuals with the highest emoluments are within the following bands:

	2020 Number of individuals	2019 <i>Number of</i> <i>individuals</i>
Nil — HK\$1,000,000	2	1
HK\$1,000,001 — HK\$2,000,000	—	1

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$611,971,000 (2019: HK\$1,136,101,000) and the weighted average of 3,030,997,000 ordinary shares (2019: 3,025,730,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2020 '000	2019 '000
Issued ordinary shares at 1 January	3,032,325	3,014,025
Effect of purchase and cancellation of own shares (note 25(c)(ii))	(6,879)	(131)
Effect of share options exercised (note 25(c)(iii))	5,551	11,836
Weighted average number of ordinary shares at 31 December	3,030,997	3,025,730

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$611,971,000 (2019: HK\$1,136,101,000) and the weighted average of 3,041,974,000 ordinary shares (2019: 3,050,338,000 ordinary shares) after adjusting the effect of dilutive potential ordinary shares under the Company's share option scheme, calculated as follows:

Weighted average number of ordinary shares (diluted)

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF USE ASSETS

(a) Reconciliation of carrying amount

	Buildings HK\$'000	Plant, machinery and tools HK\$'000	Furniture, fixtures, office equipment and others HK\$'000	Vehicles HK\$'000	Construction- in-progress HK\$'000	Sub-total HK\$'000	Right- of-use assets HK\$'000	Total HK\$'000
Cost:								
1 January 2019	1,485,386	1,589,563	298,048	45,788	627,978	4,046,763	312,175	4,358,938
Transfers	305,267	141,254	12,702	931	(460,154)	—	—	—
Additions	63,275	133,564	38,524	874	631,077	867,314	—	867,314
Disposals	—	(18,306)	(1,597)	(701)	—	(20,604)	—	(20,604)
Exchange adjustments	(38,596)	(39,233)	(7,606)	(980)	(16,735)	(103,150)	(6,296)	(109,446)
31 December 2019 and 1 January 2020	1,815,332	1,806,842	340,071	45,912	782,166	4,790,323	305,879	5,096,202
Transfers	365,920	204,058	20,453	—	(638,363)	(47,932)	47,932	—
Additions	37,303	103,739	38,187	3,296	354,827	537,352	13,933	551,285
Disposals	—	(16,572)	(18,382)	(4,054)	—	(39,008)	(3,933)	(42,941)
Exchange adjustments	139,338	132,501	23,779	2,790	34,447	332,855	22,378	355,233
At 31 December 2020	2,357,893	2,230,568	404,108	47,944	533,077	5,573,590	386,189	5,959,779

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF USE ASSETS (continued)

(a) Reconciliation of carrying amount (continued)

	Buildings HK\$'000	Plant, machinery and tools HK\$'000	Furniture, fixtures, office equipment and others HK\$'000	Vehicles HK\$'000	Construction- in-progress HK\$'000	Sub-total HK\$'000	Right- of-use assets HK\$'000	Total HK\$'000
Accumulated amortisation and depreciation:								
1 January 2019	(317,103)	(659,501)	(162,306)	(28,835)	—	(1,167,745)	(33,512)	(1,201,257)
Charge for the year	(78,873)	(140,583)	(28,801)	(3,699)	—	(251,956)	(9,572)	(261,528)
Written back on disposals	—	12,298	1,334	643	—	14,275	—	14,275
Exchange adjustments	8,431	16,630	3,797	643	—	29,501	857	30,358
31 December 2019 and 1 January 2020	(387,545)	(771,156)	(185,976)	(31,248)	—	(1,375,925)	(42,227)	(1,418,152)
Charge for the year	(99,226)	(157,325)	(30,670)	(3,416)	—	(290,637)	(10,776)	(301,413)
Written back on disposals	—	12,370	16,390	3,423	—	32,183	3,212	35,395
Exchange adjustments	(31,883)	(56,813)	(12,484)	(1,890)	—	(103,070)	(3,016)	(106,086)
At 31 December 2020	(518,654)	(972,924)	(212,740)	(33,131)	—	(1,737,449)	(52,807)	(1,790,256)
Net book value:								
At 31 December 2020	1,839,239	1,257,644	191,368	14,813	533,077	3,836,141	333,382	4,169,523
At 31 December 2019	1,427,787	1,035,686	154,095	14,664	782,166	3,414,398	263,652	3,678,050

As at 31 December 2020, the Group's right-of-use assets with a carrying amount of HK\$54,347,000 (2019: HK\$52,156,000) was pledged as collateral for the Group's bank borrowings (see note 19).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF USE ASSETS *(continued)*

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Note	2020 HK\$'000	2019 HK\$'000
Properties leased for own use, carried at depreciated cost	(i)	8,531	3,722
Land use rights, carried at depreciated cost	(ii)	324,851	259,930
		333,382	263,652

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2020 HK\$'000	2019 HK\$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Properties leased for own use, carried at depreciated cost	3,610	3,336
Land use rights, carried at depreciated cost	7,166	6,236
	10,776	9,572
Interest on lease liabilities <i>(note 6(a))</i>	313	238
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	—	4,955

During the year, additions to right-of-use assets were HK\$61,865,000 (2019: Nil), of which, HK\$52,812,000 related to the purchase of land use rights.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

11 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF USE ASSETS *(continued)*

(b) Right-of-use assets *(continued)*

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 18(d) and 22, respectively.

(i) *Properties leased for own use, carried at depreciated cost*

The Group leases office premises under leases expiring from 1 to 3 years. Some leases include an option to renew the lease when all terms are renegotiated. None of the leases includes variable lease payments.

(ii) *Land use rights*

Land use rights are located in Hebei Province and Jiangsu Province, the PRC, and are held on medium-term leases of 37 to 50 years from the dates of acquisition.

(c) Assets leased out under operating leases

The Group leases out certain office premise in the PRC under operating leases. The lease typically run for an initial period of three years with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals. In 2020, the rental income is insignificant (see note 4(a)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INTANGIBLE ASSETS

	Goodwill HK\$'000	Trademark and patents HK\$'000	Software HK\$'000	Customer relationships HK\$'000	Internally generated research and development costs HK\$'000	Total HK\$'000
Cost:						
At 1 January 2019	485,930	167,988	20,006	79,383	129,493	882,800
Additions	—	13,049	5,116	—	65,139	83,304
Write-off	—	—	—	—	(8,943)	(8,943)
Exchange adjustments	(10,621)	(3,900)	(528)	(1,735)	(3,977)	(20,761)
At 31 December 2019 and 1 January 2020	475,309	177,137	24,594	77,648	181,712	936,400
Additions	—	14,605	1,066	—	100,492	116,163
Transfer	—	29,211	—	—	(29,211)	—
Exchange adjustments	30,575	12,212	1,641	4,994	17,313	66,735
At 31 December 2020	505,884	233,165	27,301	82,642	270,306	1,119,298
Accumulated amortisation						
At 1 January 2019	(234,515)	(64,402)	(9,451)	(75,376)	—	(383,744)
Amortisation charge for the year	—	(9,771)	(4,048)	(1,995)	—	(15,814)
Exchange adjustments	5,126	1,580	278	1,683	—	8,667
At 31 December 2019 and 1 January 2020	(229,389)	(72,593)	(13,221)	(75,688)	—	(390,891)
Amortisation charge for the year	—	(10,777)	(4,175)	(1,975)	—	(16,927)
Exchange adjustments	(14,756)	(5,272)	(1,084)	(4,979)	—	(26,091)
At 31 December 2020	(244,145)	(88,642)	(18,480)	(82,642)	—	(433,909)
Net book value:						
At 31 December 2020	261,739	144,523	8,821	—	270,306	685,389
At 31 December 2019	245,920	104,544	11,373	1,960	181,712	545,509

Majority of amortisation of intangible assets is recognised in general and administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

12 INTANGIBLE ASSETS (continued)

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's (CGU) identified according to country of operation and operating segment as follows:

	2020 HK\$'000	2019 <i>HK\$'000</i>
Intravenous infusion solution and others	239,471	224,998
Medical materials	22,268	20,922
	261,739	245,920

The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year to a ten-year period with the final year representing a steady state in the development of the business. Cash flows beyond the five-to-ten-year period are extrapolated using an estimated weighted average growth rate. The key assumptions for the value-in-use calculations are as follows, which are based on either the past experience or external sources of information:

	Intravenous infusion solution and others		Medical materials	
	2020	2019	2020	2019
Gross profit margin in the next five to ten years	52.5%-57.2%	59.2%-62.2%	26.6%	25.6%
Growth rate in the next five to ten years	11%-36%	12%-28%	3%-37%	3%-32%
Other operating cost (as of revenue)	31%-32%	35%-36%	9%	9%
Perpetual growth rate	3%	3%	3%	3%
Pre-tax discount rate	16.4%	14.1%	16.4%	14.1%

Management determined the budgeted growth rate and gross margin based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

The recoverable amount of the CGU of Intravenous infusion solution and others and Medical materials is estimated to exceed the carrying amount of the CGU at 31 December 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES

The following list contains all subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Issued/registered capital	Proportion of ownership interest			Principal activities	Type of legal entity
			Group's effective interest	Held by the Company	Held by subsidiaries		
New Orient Investments Pharmaceutical Holding (Hong Kong) Limited	Samoa/ Hong Kong	United States Dollar ("USD") 1	100%	100%	—	Investment holding	Limited liability company
Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No. 4") (note (i))	The PRC	RMB400,000,000	100%	—	100%	Manufacturing and sale of pharmaceutical products	Limited liability company
Hebei Guolong Pharmaceutical Co., Ltd.	The PRC	RMB120,000,000	100%	—	100%	Manufacturing and sale of pharmaceutical products	Limited liability company
Hebei Jinmen Pharmaceutical Import and Export Co., Ltd.	The PRC	RMB5,000,000	100%	—	100%	Trading of pharmaceutical products	Limited liability company
Hebei Guangxiang Pharmaceutical Technology Co., Ltd.	The PRC	RMB3,000,000	100%	—	100%	Pharmaceutical technology research and development and consulting	Limited liability company
Hebei Guangxiang Logistics Co., Ltd.	The PRC	RMB3,000,000	86%	—	86%	Logistics of pharmaceutical products	Limited liability company
Shijiazhuang Guangxiang Catering Co., Ltd.	The PRC	RMB500,000	100%	—	100%	Provision of food, beverages and catering	Limited liability company
Jiangsu Best New Medical Material Co., Ltd.	The PRC	RMB200,000,000	100%	41%	59%	Manufacturing and sale of pharmaceutical products	Limited liability company
Hebei Hanlin Biotechnology Co., Ltd.	The PRC	RMB15,000,000	75%	—	75%	Research and development of biotechnology and related products	Limited liability company
Hebei Guangxiang Pharmaceutical Co., Ltd. ("Hebei Guangxiang") (note (i))	The PRC	RMB670,000,000	70%	—	70%	Manufacturing and sale of pharmaceutical products	Limited liability company
Anhui Guangxiang Pharmaceutical Co., Ltd.	The PRC	RMB10,000,000	80%	—	80%	Trading of pharmaceutical products	Limited liability company

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES (continued)

Note:

- (i) As at 31 December 2019, the Group's effective interests in Hebei Guangxiang was 71%. During 2020, Shijiazhuang No.4 (a wholly-owned subsidiary of the Group) and several investors (the "Investors") subscribed for newly issued share capital of Hebei Guangxiang of RMB70,950,000 and RMB39,050,000 at a cash consideration of RMB78,045,000 and RMB42,955,000 (equivalent to HK\$87,146,000 and HK\$47,783,000), respectively. The Group's effective interests in Hebei Guangxiang was decreased to 70%.

The shareholders of one Investor included directors of the Company, employees of the Group and a related party of a director of the Company. No service condition was contained in above capital injection. Management believe the Investors are not connected persons as defined in Chapter 14A of the Listing Rules. The subscription price paid by the Investors approximated to the fair value of Hebei Guangxiang's equity interests transferred.

The directors are of the view that the Group has no individually material non-controlling interests for the years ended 31 December 2020 and 2019.

14 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2020 HK\$'000	2019 HK\$'000
Raw materials	307,630	246,281
Work in progress	4,902	6,162
Finished goods	325,769	254,480
	638,301	506,923

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2020 HK\$'000	2019 HK\$'000
Cost of inventories sold	1,517,841	1,690,407
Cost of inventories directly recognised as research and development costs and selling and distribution costs	31,021	31,329
	1,548,862	1,721,736

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

15 TRADE AND BILLS RECEIVABLES

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

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

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

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

As at 31 December 2020, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to HK\$480 million (31 December 2019: HK\$573 million).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

15 TRADE AND BILLS RECEIVABLES *(continued)*

Ageing analysis

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

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

Further details on the Group's credit policy and credit risk arising from trade and bills receivable are set out in note 26(a).

16 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Individual income tax recoverable from employee <i>(note 21)</i>	90,610	90,610
Prepayments for purchases of inventories	33,512	23,664
Other deposits	4,967	4,097
Value-added tax recoverable	73,806	78,003
Staff advances	8,097	573
Government grants	26,620	—
Interest income on bank deposits	10,361	8,922
Professional service expense	12,570	5,024
Others	34,258	19,256
	294,801	230,149
Less: Loss allowance	(92)	(79)
	294,709	230,070

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

17 PLEDGED BANK DEPOSITS, TIME DEPOSITS AND FIXED DEPOSITS

	2020 HK\$'000	2019 HK\$'000
Current		
Time deposits with original maturities over three months	61,547	2,350
Pledged bank deposits	4,822	4,912
	66,369	7,262
Non-current		
Pledged bank deposits	519	—
Fixed deposits with original maturities over one year	118,816	122,798
	119,335	122,798

Pledged bank deposits as at 31 December 2020 were pledged for letters of credit facilities and bank acceptance notes issued by Shijiazhuang No.4.

As at 31 December 2020, fixed deposits with original maturities over one year have guaranteed repayment of principal, fixed returns and maturity periods of two to three years from the date of issue.

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2020 HK\$'000	2019 HK\$'000
Cash on hand	22	23
Cash at bank	1,445,883	817,406
Cash and cash equivalents in the consolidated cash flow statement	1,445,905	817,429

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(continued)*

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2020 HK\$'000	2019 HK\$'000
Profit before taxation		725,215	1,361,143
Adjustments for:			
(Reversal of)/provision for impairment of trade and bills receivables	6(c)	(332)	2,725
Provision for impairment of other receivables	6(c)	8	3
Amortisation of intangible assets	6(c)	15,943	14,820
Amortisation of deferred revenue	24	(13,372)	(1,798)
Impairment and write-off of intangible assets	6(c)	—	8,943
Depreciation	6(c)	301,413	261,528
Finance costs	6(a)	51,472	55,268
Interest income	6(a)	(22,977)	(23,367)
Net gain on disposal of property, plant and equipment	5	(2,055)	(132,036)
Changes in working capital:			
Increase in inventories		(186,376)	(99,215)
Increase in trade and bills receivables		(204,977)	(572,394)
Increase in prepayments, deposits and other receivables		(27,105)	(26,778)
Increase in trade payables		55,217	46,027
(Decrease)/increase in contract liabilities		(4,292)	15,743
Increase/(decrease) in accruals and other payables		32,616	(5,345)
Increase in pledged bank deposits		(108)	(31)
Cash generated from operations		720,290	905,236

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(continued)*

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Lease liabilities <i>HK\$'000</i>	Borrowings <i>(note 19)</i> <i>HK\$'000</i>
At 1 January 2020	3,298	1,695,857
Changes from financing cash flows:		
Proceeds from new bank loans	—	1,664,273
Repayment of bank loans	—	(992,722)
Capital element of lease rentals paid	(3,506)	—
Interest element of lease rentals paid	(313)	—
Total changes from financing cash flows	(3,819)	671,551
Exchange adjustments	65	63,050
Other changes:		
Increase in lease liabilities from entering into new leases during the year	8,417	—
Interest expense	313	(3,386)
Total other changes	8,730	(3,386)
At 31 December 2020	8,274	2,427,072

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(continued)*

(c) Reconciliation of liabilities arising from financing activities *(continued)*

	Lease liabilities <i>HK\$'000</i>	Borrowings <i>(note 19)</i> <i>HK\$'000</i>
At 1 January 2019	6,659	1,494,502
Changes from financing cash flows:		
Proceeds from borrowings	—	920,441
Repayments of borrowings	—	(706,125)
Capital element of lease rentals paid	(3,343)	—
Interest element of lease rentals paid	(238)	—
Total changes from financing cash flows	(3,581)	214,316
Exchange adjustments	(18)	(15,630)
Other change:		
Interest expense	238	2,669
At 31 December 2019	3,298	1,695,857

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within operating cash flows	6,112	4,955
Within financing cash flows	3,819	3,581
	9,931	8,536

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 BORROWINGS

As of the end of the reporting period, the Group's borrowings were repayable as follows:

	2020 HK\$'000	2019 <i>HK\$'000</i>
Within 1 year or on demand	1,327,115	816,915
After 1 year but within 2 years	46,681	69,315
After 2 years but within 5 years	1,053,276	809,627
	1,099,957	878,942
	2,427,072	1,695,857

As of the end of the reporting period, the Group's borrowings were secured as follows:

	2020 HK\$'000	2019 <i>HK\$'000</i>
Bank borrowings		
— secured	292,286	276,854
— unsecured	2,134,786	1,419,003
	2,427,072	1,695,857

As at 31 December 2020, the Group's borrowings of HK\$292,286,000 (2019: HK\$276,854,000) were secured by the Group's right-of-use assets with a carrying amount of HK\$54,347,000 (2019: HK\$52,156,000).

The Group's drawn down bank facilities of HK\$2,231,026,000 (2019: HK\$1,366,535,000) are subject to the fulfilment of covenants relating to certain specific performance requirements on the Group. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with covenants. As at 31 December 2020, none of the covenants relating to drawn down facilities had been breached.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

20 TRADE PAYABLES

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

21 ACCRUALS AND OTHER PAYABLES

	2020 HK\$'000	2019 HK\$'000
Payables for purchase of property, plant and equipment	224,819	247,888
Withholding individual income tax payables	90,610	90,610
Accrued salaries and wages	42,019	35,732
Deposits from constructors	39,416	33,905
Value-added tax payable	26,931	27,447
Welfare payables	4,485	3,795
Professional fee payables	16,919	9,234
Travelling, meeting and entertainment expenses	12,631	14,448
Reserve for production safety	1,956	1,923
Others	9,805	10,301
	469,591	475,283

Withholding individual income tax payables

According to the relevant the PRC tax laws and regulations, the PRC subsidiaries of the Group are responsible for withholding individual income tax for directors and employees' gain from the disposal of their shares of the Company acquired through the option scheme. In this regard, HK\$90,610,000 (31 December 2019: HK\$90,610,000) payables relating to the PRC individual income taxes in total have been recorded in the consolidated financial statements. Meanwhile, the same amount of receivables is also recorded (note 16).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

22 LEASE LIABILITIES

At 31 December 2020, the lease liabilities were repayable as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Within 1 year	3,664	2,394
After 1 year but within 2 years	2,809	904
After 2 years but within 5 years	1,801	—
	4,610	904
	8,274	3,298

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
At beginning of the year	63,207	49,375
Provision for the year (<i>note 7(a)</i>)	127,160	221,235
Tax paid	(161,661)	(206,376)
Exchange adjustments	2,177	(1,027)
At end of the year	30,883	63,207

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Deferred revenue HK\$'000	Provision for asset impairment HK\$'000	Amortisation and depreciation of assets HK\$'000	Accrued expenses and others HK\$'000	Revaluation of assets on acquisition HK\$'000	Withholding tax HK\$'000	Total HK\$'000
At 1 January 2019	(5,917)	(959)	(1,116)	(1,147)	16,722	1,252	8,835
(Credited)/charged to profit or loss (note 7(a))	(3,787)	(429)	169	(89)	(1,367)	8,106	2,603
Exchange adjustments	195	29	21	8	(341)	(169)	(257)
At 31 December 2019 and 1 January 2020	(9,509)	(1,359)	(926)	(1,228)	15,014	9,189	11,181
(Credited)/charged to profit or loss (note 7(a))	(4,172)	50	167	(2,738)	(3,632)	(2,439)	(12,764)
Exchange adjustments	(844)	(86)	(50)	(168)	762	454	68
At 31 December 2020	(14,525)	(1,395)	(809)	(4,134)	12,144	7,204	(1,515)

Reconciliation to the consolidated statement of financial position:

	2020 HK\$'000	2019 HK\$'000
Net deferred tax assets recognised in the consolidated statement of financial position	(20,863)	(13,022)
Net deferred tax liabilities recognised in the consolidated statement of financial position	19,348	24,203
	(1,515)	11,181

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(v), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$78,431,000 (2019: HK\$75,838,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses incurred by the Group's subsidiaries in the PRC will expire in 5 years from the respective balance sheet date and the tax losses incurred in other tax jurisdiction do not expire.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

23 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

(d) Deferred tax liabilities not recognised

At 31 December 2020, temporary differences relating to the undistributed profits of subsidiaries in the PRC amounted to HK\$5,377,254,000 (2019: HK\$4,674,839,000). Deferred tax liabilities of HK\$268,863,000 (2019: HK\$233,742,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

24 DEFERRED REVENUE

Deferred revenue represented subsidies received from municipal governments represented for the construction of laboratories and plants of the Group, and are recognised in profit or loss when the depreciation expense of the laboratories and plants are recognised in profit or loss.

The movements of deferred revenue are as follows:

	2020 HK\$'000	2019 HK\$'000
At 1 January	56,137	39,453
Additions	48,496	19,659
Government grant recognised as other revenue	(13,372)	(1,798)
Exchange adjustments	5,576	(1,177)
At 31 December	96,837	56,137

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Note	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Share-based payment reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000
Balance at 1 January 2019	67,088	614,946	173,703	11,440	75,999	943,176
Changes in equity for 2019:						
Shares issued under share option scheme	25(c)(iii)	400	55,600	—	(4,400)	51,600
Dividends paid to equity shareholders of the Company	25(b)	—	(242,839)	—	(59,563)	(302,402)
Purchase and cancellation of own shares	25(c)(ii)	(34)	(10,118)	—	—	(10,152)
Total comprehensive income for the year	—	—	—	—	(33,456)	(33,456)
Balance at 31 December 2019 and 1 January 2020	67,454	417,589	173,703	7,040	(17,020)	648,766
Changes in equity for 2020:						
Shares issued under share option scheme	25(c)(iii)	640	88,960	—	(7,040)	82,560
Dividends paid to equity shareholders of the Company	25(b)	—	(108,323)	—	(224,537)	(332,860)
Purchase and cancellation of own shares	25(c)(ii)	(412)	(98,450)	—	—	(98,862)
Total comprehensive income for the year	—	—	—	—	262,005	262,005
Balance at 31 December 2020	67,682	299,776	173,703	—	20,448	561,609

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital

(i) Issued share capital

	2020		2019	
	No. of shares ('000)	HK\$'000	No. of shares ('000)	HK\$'000
Ordinary shares of HK\$0.02 each, issued and fully paid:				
At 1 January	3,032,325	67,454	3,014,025	67,088
Purchase and cancellation of own shares (note 25(c)(ii))	(20,598)	(412)	(1,700)	(34)
Shares issued under share option scheme (note 25(c)(iii))	32,000	640	20,000	400
	3,043,727	67,682	3,032,325	67,454

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Purchase and cancellation of own shares

In 2020, the Company repurchased and cancelled a total of 20,598,000 (2019: 1,700,000) ordinary shares of the Company through the Stock Exchange of Hong Kong Limited at an aggregate consideration of approximately HK\$98,862,000 (2019: HK\$10,152,000), in accordance with the Company Law of the Cayman Islands.

(iii) Shares issued under share option scheme

During 2020, a total of 32,000,000 (2019: 20,000,000) share options were exercised by one director of the Company, with an exercise price of HK\$2.58 (2019: HK\$2.58) to subscribe for 32,000,000 (2019: 20,000,000) ordinary shares in the Company at a consideration of HK\$82,560,000 (2019: HK\$51,600,000), all of which was credited to share capital and share premium. HK\$7,040,000 (2019: HK\$4,400,000) was transferred from the share-based payment reserve to the share premium account in accordance with policy set out in note 2(w).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. The share premium account may be applied by the Company to pay distributions or dividends to the equity shareholders of the Company.

(ii) Statutory reserve

In accordance with the relevant PRC accounting rules and regulations, the PRC subsidiaries of the Company are required to make appropriation of its retained earnings to statutory general reserve at the rate of 10% of its net profit each year, until the reserve balance reaches 50% of its paid up capital. The transfer to this reserve must be made before distribution of dividend to equity owners. The statutory reserve fund can be utilised to offset prior year's losses or converted into paid up capital.

(iii) Share-based payment reserve

The number and weighted average exercise prices of share options are as follows:

	2020		2019	
	Average exercise price (HK\$ per share)	Number of options ('000)	Average exercise price (HK\$ per share)	Number of options ('000)
Outstanding at 1 January	2.58	32,000	2.58	52,000
Exercised	2.58	(32,000)	2.58	(20,000)
Outstanding and exercisable at 31 December		—	2.58	32,000

The weighted average share price at the date of exercise for share options exercised during the year was HK\$4.58 (2019: HK\$6.28).

There is no option outstanding at 31 December 2020. The option outstanding at 31 December 2019 had an exercise price of HK\$2.58 and a weighted average remaining contractual life of 1.29 years.

The Company adopted a restricted share award scheme (the "RSU Scheme") on 27 December 2018, pursuant to which, existing shares will be purchased by the trustee and each selected participant may be granted, at any one time or in aggregate, no more than 1% of the issued share capital of the Company. Up to the date of this report, the Company has no share purchased by the trustee and no share awarded to the selected participant.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves (continued)

(iv) Currency translation differences

The currency translation differences comprise all foreign exchange differences arising from the translation of the financial statements of certain subsidiaries within the Group. The reserve is dealt with in accordance with the accounting policies set out in note 2(f).

(e) Distributability of reserves

At 31 December 2020, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK\$320,224,000 (2019: HK\$424,629,000).

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital less non-controlling interests. Net debt is calculated as total borrowings (including current and non-current borrowings) less cash and cash equivalents. Total capital less non-controlling interests is calculated as total equity less non-controlling interests plus net debt.

The gearing ratios at 31 December 2020 and 2019 were as follows:

	2020 HK\$'000	2019 HK\$'000
Borrowings (note 19)	2,427,072	1,695,857
Lease liabilities (note 22)	8,274	3,298
Less: Cash and cash equivalents (note 18)	(1,445,905)	(817,429)
Net debt	989,441	881,726
Total equity less non-controlling interests	5,652,036	4,986,422
Total capital less non-controlling interests	6,641,477	5,868,148
Gearing ratio	14.9%	15.0%

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents pledged bank deposits, time deposits, fixed deposits and bills receivable is limited.

As at 31 December 2020, 99% (2019: 96%) of the Group's bank deposits are placed in major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality without significant credit risk. The Group also has policies that limit the amount of credit exposure to any financial institution, subject to periodic review.

	2020 HK\$'000	2019 HK\$'000
State-owned banks	628,525	573,035
Listed banks other than state-owned banks	980,275	340,080
Other financial institutions	22,787	34,351
Total	1,631,587	947,466

As at 31 December 2020, all of the Group's bills receivables are bank acceptance notes, the credit risks of which rest with the issuing banks. The directors of the Company are satisfied that the risks arising from those notes are minimal considering the credit quality of the issuing banks. The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 1.50% (2019: 5.42%) and 10.49% (2019: 12.41%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are normally due within 30 to 180 days from the date of billing. A regular review is carried out and follow up actions are taken on overdue amounts to minimise the Group's exposure to credit risk. Normally, the Group does not obtain collateral from customers.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

Trade receivables *(continued)*

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	2020		
	Expected loss rate %	Gross carrying amount \$'000	Loss allowance \$'000
Current (not past due)	0.50%	1,047,706	(5,239)
1 — 90 days past due	0.50%	332,059	(1,660)
over 90 days past due	0.70%	248,770	(1,730)
		1,628,535	(8,629)
	2019		
	Expected loss rate %	Gross carrying amount \$'000	Loss allowance \$'000
Current (not past due)	0.50%	1,113,646	(5,568)
1 — 90 days past due	0.50%	385,524	(1,928)
over 90 days past due	0.52%	181,973	(941)
		1,681,143	(8,437)

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(a) Credit risk *(continued)*

Trade receivables *(continued)*

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2020 HK\$'000	2019 <i>HK\$'000</i>
Balance at 1 January	8,437	5,888
(Reversal of)/provision for impairment losses recognised during the year	(332)	2,725
Exchange adjustments	524	(176)
Balance at 31 December	8,629	8,437

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk (continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	2020				Carrying amount at 31 December HK\$'000
	Contractual undiscounted cash outflow				
	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	Total HK\$'000	
Borrowings	1,373,533	82,523	1,072,156	2,528,212	2,427,072
Trade payables	240,562	—	—	240,562	240,562
Accruals and other payables	352,036	—	—	352,036	352,036
Lease liabilities	3,930	2,931	1,820	8,681	8,274
	1,970,061	85,454	1,073,976	3,129,491	3,027,944

	2019				Carrying amount at 31 December HK\$'000
	Contractual undiscounted cash outflow				
	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	Total HK\$'000	
Borrowings	866,001	101,930	846,131	1,814,062	1,695,857
Trade payables	171,798	—	—	171,798	171,798
Accruals and other payables	357,194	—	—	357,194	357,194
Lease liabilities	2,497	939	—	3,436	3,298
	1,397,490	102,869	846,131	2,346,490	2,228,147

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from cash at banks, deposits with banks, interest-bearing borrowings and lease liabilities. Borrowings issued at variable rates and cash at banks expose the Group to cash flow interest rate risk. Deposits with banks and borrowings issued at floating rates expose the Group to fair value interest rate risk. The Group's interest rate profile as monitored by management is set out in (i) below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings, cash at banks, deposits with banks and lease liabilities at the end of the reporting period.

	2020		2019	
	Effective interest rate %	HK\$'000	Effective interest rate %	HK\$'000
Fixed rate instruments:				
Pledged bank deposits and time deposits	3.20 – 3.85	185,704	1.65 – 3.85	130,060
Cash at banks	1.75 – 3.99	106,934	3.20 – 3.85	156,288
Borrowings	1.78 – 3.03	(588,138)	3.35 – 4.05	(440,956)
Lease liabilities	3.92 – 5.88	(8,274)	3.92 – 5.88	(3,298)
		(303,774)		(157,906)
Variable rate instruments:				
Cash at banks	0.30 – 0.35	1,338,949	0.30 – 0.35	661,118
Borrowings	1.59 – 4.30	(1,838,934)	2.72 – 4.90	(1,254,901)
		(499,985)		(593,783)
		(803,759)		(751,689)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

At 31 December 2020, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately HK\$4,427,000 (2019: HK\$6,042,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained earnings) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained earnings) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as 2019.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily United States dollars and Euros. The Group manages this risk as follows:

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in HK\$, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of the entities into the Group's presentation currency is excluded.

	2020			2019		
	RMB HK\$'000	USD HK\$'000	Euro HK\$'000	RMB HK\$'000	USD HK\$'000	Euro HK\$'000
Trade and other receivables	—	38,958	—	—	1,849	—
Cash and cash equivalents	1,011	110,473	3,448	1,007	72,221	21,045
Trade and other payables	—	(6,582)	(954)	—	(18,646)	(4,070)
Net exposure arising from recognised assets and liabilities	1,011	142,849	2,494	1,007	55,424	16,975

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained earnings) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2020		2019	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained earnings HK\$'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained earnings HK\$'000
USD (against HKD)	3%	3,600	3%	1,370
	-3%	(3,600)	-3%	(1,370)
EUR (against HKD)	3%	64	3%	433
	-3%	(64)	-3%	(433)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into HK\$ at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2019.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(e) Fair value measurement

The three-level fair value hierarchy of financial instruments are defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2020	Fair value measurements as at 31 December 2020		
	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurements				
Financial assets:				
Fair value through other comprehensive income				
— Bank acceptance bills receivable	193,407	—	193,407	—

	Fair value at 31 December 2019	Fair value measurements as at 31 December 2019		
	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurements				
Financial assets:				
Fair value through other comprehensive income				
— Bank acceptance bills receivable	130,573	—	130,573	—

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

(e) Fair value measurement *(continued)*

During the years ended 31 December 2019 and 2020, there were no transfers between Level 1 and Level 2, nor transfers into or out of Level 3 (2019: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The carrying values of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2019 and 2020.

For the year ended 31 December 2020, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial instruments. Moreover, there were no significant reclassifications of financial instruments.

27 COMMITMENTS

Capital commitments in regard of property, plant and equipment and intangible assets outstanding at 31 December 2020 not provided for in the financial statements were as follows:

	2020 HK\$'000	2019 HK\$'000
Contracted for	345,425	251,996
Authorised but not contracted for	131,812	286,253
	477,237	538,249

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

28 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries, bonus, allowance and other benefits	11,204	17,960

Total remuneration is included in "staff costs" (see note 6(b)).

(b) Applicability of the Listing Rules relating to connected transactions

Sichuan Kelun Pharmaceutical Co., Ltd. ("Sichuan Kelun") has been regarded as having significant influence over the Company since 24 November 2017 and thus Sichuan Kelun and its subsidiaries (together as "Kelun Group") are related parties of the Company. In addition, the entities controlled by the ultimate controlling shareholder of Sichuan Kelun are also related parties of the Company.

The related party transactions above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the Report of the Directors.

During the year ended 31 December 2020, the Group: (i) purchased materials and received services totalling RMB61,553,000 (equivalent to HK\$69,259,000) (2019: RMB18,504,000 (equivalent to HK\$21,027,000)) from related parties; and (ii) sold goods totalling RMB21,317,000 (equivalent to HK\$23,986,000) (2019: RMB35,441,000 (equivalent to HK\$40,273,000)) to related parties.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

29 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2020		2019	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets				
Property, plant and equipment		713		171
Right-of-use assets		7,209		1,548
Investments in subsidiaries		944,179		944,179
		952,101		945,898
Current assets				
Dividends receivable	130,336		130,336	
Prepayments, deposits and other receivables	1,703		1,299	
Amounts due from subsidiaries	83,580		83,580	
Cash and cash equivalents	173,039		4,888	
	388,658		220,103	
Current liabilities				
Borrowings	150,000		—	
Lease liabilities	2,702		1,475	
Accruals and other payables	8,094		8,094	
Amounts due to subsidiaries	613,744		507,666	
	774,540		517,235	
Net current liabilities		(385,882)		(297,132)
Total assets less current liabilities		566,219		648,766
Non-current liabilities				
Lease liabilities	4,610		—	
	4,610		—	
NET ASSETS		561,609		648,766
Capital and reserves (note 25(a))				
Share capital		67,682		67,454
Reserves		493,927		581,312
TOTAL EQUITY		561,609		648,766

Approved and authorised for issue by the board of directors on 30 March 2021.

Qu Jiguang
Director

Wang Xianjun
Director

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

30 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

- (a) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 25(b).
- (b) Up to the date of this report, 100,000,000 share options were granted to seven employees of the Group, at a consideration of HK\$1.00. Each option entitles the holder to subscribe for one ordinary share in the Company. The exercise price is HK\$4.218. The share options granted in 2021 were approved at the Board meeting of the Company held on 12 January 2021. The Group has no legal or constructive obligation to repurchase or settle the share options in cash.
- (c) After the end of the reporting period, the Group repurchased a total of 16,654,000 ordinary shares of the Group through the Stock Exchange at an aggregate consideration of approximately HK\$72,625,000 (including HK\$260,000 expenses directly attributable to the repurchase), and all such shares were cancelled in accordance with the Company Law of the Cayman Islands.
- (d) Since early 2021, the Company's operation has been adversely affected by quarantine measures imposed by the government to contain the outbreak of the coronavirus in Shijiazhuang. The Company has been paying close attention to the impact of the situation on the operation and taking all possible and reasonable measures to mitigate and limit the impact on the Company's operation. As whether there will be any coronavirus outbreak in the future is uncertain, the overall financial effect that the coronavirus outbreak may have on the Group's businesses cannot be reliably estimated as at the date when the financial statements were authorised for issue.

No adjustment has been made in this financial report in this regard.

31 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2020, the directors consider the immediate parent and ultimate controlling party of the Group to be China Pharmaceutical Co., Ltd., which is incorporated in Samoa. This entity does not produce financial statements available for public use.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to HKAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
Amendments to HKAS 37, <i>Onerous Contracts — Cost of Fulfilling a Contract</i>	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

	Year ended 31 December				2020
	2016 (Note) HK\$'000	2017 (Note) HK\$'000	2018 (Note) HK\$'000	2019 HK\$'000	
RESULTS					
Revenue	2,361,250	3,076,369	4,180,788	4,635,675	4,260,898
Profit before taxation	587,918	797,375	1,079,143	1,361,143	725,215
Profit attributable to equity shareholders	489,535	664,719	911,774	1,136,101	611,971
	As at 31 December				2020
	2016 (Note) HK\$'000	2017 (Note) HK\$'000	2018 (Note) HK\$'000	2019 HK\$'000	
ASSETS AND LIABILITIES					
Total assets	4,744,074	5,903,946	6,880,745	7,724,342	9,253,707
Total liabilities	(2,059,652)	(2,417,204)	(2,502,499)	(2,537,194)	(3,338,496)
Non-controlling interests	(7,948)	(11,384)	(139,814)	(200,726)	(263,175)
Equity attributable to equity shareholders	2,676,474	3,475,358	4,238,432	4,986,422	5,652,036

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.