



石四藥集團有限公司

SSY Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2005)

2020
Interim Report

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

SMP Partners (Cayman) Limited
Royal Bank House - 3rd Floor
24 Shedden Road
P.O. Box 1586, Grand Cayman
KY1-1110, 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 unaudited interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2020.

I. RESULTS AND DIVIDEND DISTRIBUTION

With the outbreak of the novel coronavirus domestically and internationally in the first half of this year, 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.

During the first half of the year, the Group achieved a revenue of HK\$1,783 million (or approximately RMB1,617 million), representing a decrease of 23.3% (or approximately 19.5% in RMB) compared to the corresponding period of last year, and the gross profit margin was 64.0%, representing a decrease of 0.1 percentage point compared to the corresponding period of last year. The net profit was HK\$247 million (or approximately RMB224 million), representing a decrease of 54.9% (or approximately 52.7% in RMB) compared to the corresponding period of last year.

Despite the unsatisfactory operating results, the Directors believe that the fundamentals of the Group have not been severely damaged and the Company will quickly resume sustainable growth after the outbreak. At present, the Company has sufficient operating cash flow. To ride out the challenges together with our investors, the Directors resolved to pay an interim dividend of HK\$0.05 per share on 23 September 2020 to the shareholders named in the register of members of the Company on 11 September 2020, which is unchanged from the corresponding period of last year.

II. BUSINESS REVIEW

	For the six months ended 30 June				
	2020		2019		Increase/ (decrease)
	Revenue <i>HK\$'000</i>	Percentage of revenue %	Revenue <i>HK\$'000</i>	Percentage of revenue %	
Intravenous infusion solution and others	1,729,412	97.0	2,244,503	96.5	(22.9)
(Including: Non-PVC soft bag & upright soft bag infusion solution	773,692	43.4	1,285,192	55.3	(39.8)
PP plastic bottle infusion solution	297,240	16.6	422,733	18.1	(29.7)
Glass bottle infusion solution	111,826	6.3	264,442	11.4	(57.7)
Ampoule injection	293,608	16.5	150,739	6.5	94.8
Others)	253,046	14.2	121,397	5.2	108.4
Medical materials	53,421	3.0	81,326	3.5	(34.3)
Total	1,782,833	100	2,325,829	100	(23.3)

(1) Sales of Products

During the first half of 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 the intravenous infusion solutions, being the major products of the Group, dropped considerably. During the first half of the year, the sales volume of the intravenous infusion solutions was approximately 482 million bottles/bags, representing a decrease of approximately 38% compared to the corresponding period of last year. Facing a significant market pressure, the Group responded actively by extending sales & marketing and supply services through “cloud services” and other means. During the period, the Group developed new businesses in more than 80 hospitals to further secure and stabilize its market, laying a solid market foundation for the rapid business recovery of the Company after the epidemic.

During the first half year, the Group took effective measures to actively adjust its product mix and improved the proportion of the therapeutic products among the sales of intravenous infusion solutions, which partially offset the drop in operating results arising from decrease in sales volume of intravenous infusion solutions. The proportion of therapeutic infusion solutions among the intravenous infusion solutions increased to 31.6%, representing an increase of 10.1 percentage points compared to the corresponding period of last year. The Group increased its effort in promoting the sales of new products in different provinces, among which the online tender of Moxifloxacin Hydrochloride & Sodium Chloride Injection has been completed in 31 provinces and municipalities and has resulted in sales in 22 provinces, achieving sales of RMB127 million during the first half year (representing an increase of 265% compared to the corresponding period of last year). The online tender of peritoneal dialysis solution has been completed in 9 provinces and has resulted in sales in 4 provinces, with such series of products becoming a new growth pole of the Group’s development soon.

The broader variety of ampoule products resulted in rapid growth in sales. Despite the epidemic, small-volume injection products of the Group such as Ambroxol Hydrochloride Injection, Betahistine Hydrochloride & Sodium Chloride Injection and Potassium Chloride Injection still achieved faster sales growth, maintaining and strengthening their operational advantages. During the first half year, sales of ampoule products amounted to RMB266 million, representing a growth of 104.6% compared to the corresponding period of last year. To satisfy market demand, the Group built a new production line designated for 10ml PP ampoule injections, and expanded production capacity of specialised small-volume injection products.

As a broad-spectrum antiviral drug, the Group's Abidol Hydrochloride capsule 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 (Versions 6 and 7)". Abidol was also included in the newly published Version 8 as well, which was another recognition to its antiviral effect. 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 the 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 first half year amounted to RMB50.64 million, representing a significant increase of 19 times compared to the corresponding period of last year. Widely known to doctors during this outbreak, the product will become one of the main antiviral drugs in the PRC.

Export sales to foreign countries achieved a growth despite the unfavourable market trend, with increases in export revenue of 14.9% and export volume of infusion solution of 15.4% during the first half year as compared to corresponding period of last year. We completed the registration procedures and obtained registration certificates for 26 product specifications overseas, and increased 2 new countries for export, i.e. Saudi Arabia 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

During the first half year, for both existing and potential markets, the Group further pushed forward the progress of research and development of innovative drugs and generic drugs as well as the consistency evaluation of generic drugs, and achieved results as expected. The Group obtained approvals for production of Doxofylline Injection and Ropivacaine Hydrochloride Injection being two items under newly classified Type 4 chemical drug. In July, it obtained approval for Cefdinir capsule and Prucalopride Succinate tablet, being newly classified Type 4 oral formulation. All of them were regarded as one of the first three enterprises that had passed through consistency evaluation in the PRC. 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 that pass through consistency evaluation, such that demand of such drug in the PRC will be well satisfied and replacement of

original drugs will be achievable. Cefdinir capsule is the third generation Cephalosporin antibiotics while Prucalopride Succinate tablet is a new type of drug for constipation. In August, the approval for Rosuvastatin Calcium Tablet, a newly classified Type 4 chemical drug, was also obtained. It is used for treatment of primary hypercholesterolemia or mixed dyslipidemia. Cefdinir capsule and Prucalopride Succinate tablet were both awarded the first place in the tender results of National Centralized Medicines Procurement in the PRC, and will be exclusively supplied to markets of 9 and 11 provinces respectively. The gradual increase of new solid preparation varieties is beneficial to the accelerated growth of the Company's solid preparation business segment and may become the new growth driver of the Company's business development.

In addition, 72 research and development projects were submitted for approval, including clinical trial application of NP-01 under Type I new drug, 4 items under Type 4 chemical drugs, 1 item under Type 3 chemical drugs and 3 items for consistency evaluation, etc.

(3) Development of Projects

Through product process optimization as well as equipment modification and upgrades, Hebei Guangxiang Pharmaceutical Co., Ltd. is rapidly releasing its production capacity of bulk pharmaceuticals such as caffeine, metronidazole, theophylline, aminophylline and nifedipine, thus beginning to show the advantage of production cost and providing a better safeguard for development of both domestic and foreign markets. At the same time, with continuous transformation of research and development results. This year, 8 new types of bulk pharmaceutical, including Ornidazole, Levornidazole, Pitavastatin Calcium and Rosuvastatin Calcium are expected to be submitted for registration. The variety of bulk pharmaceuticals have increased so that such business is expected to be an important sector for the Group's development other than injection products. The Company has planned for a spin-off and separate listing of its integrated business of bulk pharmaceuticals on a stock exchange in the PRC.

The Group's newly-built pilot-testing and industrialized support project for pharmaceutical research and development platform have been handed over for use, which will further facilitate its enterprises to accelerate the pace of innovation and realize the transformation of innovation results locally.

III. PROSPECTS FOR DEVELOPMENT

Looking ahead in the second half year, domestic and international economy will be more complex and dynamic. As the novel coronavirus epidemic may become normalised, 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 our major products in the leading position of intravenous infusion solution market. We will strengthen the marketing efforts of major products, such as therapeutic infusion solution products and small-volume injection products, as well as newly approved drug types such as Ropivacaine Hydrochloride Injection, Cefdinir and Prucalopride Succinate. We will also expand the sales proportion of high-value-added preparation products and continuously enhance our profitability.
2. We will actively utilize the production capacity of bulk pharmaceuticals. In the second half year, we will 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 utilization, we will facilitate the Group's overall scale expansion. We will complete the corporate restructuring of the bulk pharmaceuticals business and lay a solid foundation for its listing in the PRC.

3. 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 solid 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 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 and Doxofylline Injection. The hemodialysis and peritoneal dialysis product series will form the Company’s product portfolio in the field of dialysis for kidney disease. In the meanwhile, the Group concentrated its efforts in the development of drugs with market demand such as new microspheres, liposomal high-end injection, lyophilized powder injection, infusion bag, with two or more chambers and aseptic filling injection, and gradually establishes its leading position in injections in terms of high-end drug administration system and innovative packaging form.

On the other hand, the Group strives to make new breakthroughs in the research and development of innovative drugs. The phase I clinical trial of anti-tumor Type 1 innovative drug NP-01 will commence during the year. The Type 1 innovative drug AND-9 used for the treatment of liver fibrosis is now under preclinical pharmacology and toxicology studies, and submission for phase I clinical trial registration application is expected during the year. As our self-developed compounds series for treatment of pulmonary hypertension, the anti-tumor Type 2 chemical innovative drug Miriplatin has started the pharmacodynamics study and safety assessment work as scheduled, and is expected to apply for clinical trial within 2021.

We will not be discouraged by the disappointing result in the first half year. 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 innovative vitality 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, 25 August 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

For the six months ended 30 June 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 “PROSPECTS 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 the first half year of 2020, the COVID-19 novel coronavirus outbreak has brought uncertainties and challenges to the pharmaceutical industry environment in China. The Group has been actively responding to the government’s measures in fighting against novel coronavirus outbreak. 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 taken effective measures to minimize the impact of novel coronavirus outbreak on its business. The Group will keep continuous attention on the change of situation and make timely responses.

During the first half year of 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 those required in the 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.

COMPLIANCE WITH LAWS AND REGULATIONS

For the six months ended 30 June 2020, 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 has provided a green and eco-friendly working environment for its employees.

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. For the six months ended 30 June 2020, there was no material and significant dispute between the Group and its suppliers and/or customers.

FINANCIAL PERFORMANCE REVIEW
REVENUE

	For the six months ended 30 June				
	2020		2019		Increase/ (decrease) %
	Revenue HK\$'000	Percentage of revenue %	Revenue HK\$'000	Percentage of revenue %	
Intravenous infusion solution and others	1,729,412	97.0	2,244,503	96.5	(22.9)
(Including: Non-PVC soft bag & upright soft bag infusion solution	773,692	43.4	1,285,192	55.3	(39.8)
PP plastic bottle infusion solution	297,240	16.6	422,733	18.1	(29.7)
Glass bottle infusion solution	111,826	6.3	264,442	11.4	(57.7)
Ampoule injection	293,608	16.5	150,739	6.5	94.8
Others)	253,046	14.2	121,397	5.2	108.4
Medical materials	53,421	3.0	81,326	3.5	(34.3)
Total	1,782,833	100	2,325,829	100	(23.3)

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

Majority of the Group's sales are conducted in the PRC and are denominated in Renminbi ("RMB"). 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 novel coronavirus epidemic. In terms of RMB, revenue of the Group for the six months ended 30 June 2020 decreased by 19.5% from RMB2,008,470,000 in corresponding period of last year to RMB1,617,083,000. In addition, RMB depreciated by approximately 4.8% when translated into Hong Kong dollars ("HK\$") for the six months ended 30 June 2020 as compared with corresponding period of last year. As a result, in terms of HK\$, revenue of the Group for the six months ended 30 June 2020 decreased by 23.3% from HK\$2,325,829,000 in corresponding period of last year to HK\$1,782,833,000. Among which, revenue from intravenous infusion solution accounted for HK\$1,182,758,000 (30 June 2019: HK\$1,972,367,000), representing a decrease of 40.0% as compared with corresponding period of last year. Among which, revenue from Non-PVC Soft Bag and Upright Soft Bag Infusion Solution were HK\$614,878,000 and HK\$158,814,000 respectively, totalling HK\$773,692,000, a decrease of 39.8% as compared with corresponding period of last year and accounted for 65.4% of revenue from intravenous infusion solution; revenue from PP Plastic Bottle Infusion Solution was HK\$297,240,000 a decrease of 29.7% as compared with corresponding period of last year and accounted for 25.1% of revenue from intravenous infusion solution; revenue from Glass Bottle Infusion Solution was HK\$111,826,000, a decrease of 57.7% as compared with corresponding period of last year and accounted for 9.5% of revenue from intravenous infusion solution.

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\$293,608,000 (30 June 2019: HK\$150,739,000), representing an increase of 94.8% as compared with corresponding period of last year. Revenue from other products and services accounted for HK\$253,046,000 (30 June 2019: HK\$121,397,000), representing an increase of 108.4% as compared with corresponding period of last year mainly due to significant increase in sales of bulk pharmaceuticals and Abidol Hydrochloride capsule.

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 and bulk pharmaceuticals to drive revenue growth.

Revenue from medical materials products contributed HK\$53,421,000 (30 June 2019: HK\$81,326,000) to the Group, representing a decrease of 34.3% as compared with corresponding period of last year.

COST OF SALES

The Group's cost of sales decreased by 23.2% to HK\$641,572,000 for the six months ended 30 June 2020 as compared to the corresponding period last year of HK\$835,573,000. The cost of direct materials, direct labour and other costs represented approximately 59.2%, 16.2% and 24.6% of the total cost of sales respectively, while their comparative percentages for the corresponding period last year were 60.3%, 13.8% and 25.9% respectively.

GROSS PROFIT MARGIN

For the six months ended 30 June 2020, the Group recorded a total gross profit of HK\$1,141,261,000 (30 June 2019: HK\$1,490,256,000). Overall gross profit margin slightly decreased by 0.1 percentage point to 64.0% for the six months ended 30 June 2020 from 64.1% for the corresponding period last year. It was mainly an overall result of a larger proportion of high margin therapeutic products among infusion solutions offset by an increased sales of bulk pharmaceuticals with a lower margin as compared to infusion solutions.

OTHER NET INCOME

For the six months ended 30 June 2020, the Group's other net income increased to approximately HK\$37,825,000 (30 June 2019: HK\$8,742,000) which mainly represented government grants.

SELLING AND DISTRIBUTION COSTS

For the six months ended 30 June 2020, selling and distribution costs amounted to approximately HK\$670,798,000 (30 June 2019: HK\$651,777,000), which mainly consisted of advertising, marketing and promotion expenses of approximately HK\$470,710,000 (30 June 2019: HK\$380,097,000), transportation cost of approximately HK\$143,956,000 (30 June 2019: HK\$212,620,000) as well as salary expenses for sales and marketing staff of approximately HK\$27,214,000 (30 June 2019: HK\$30,158,000).

Selling and distribution expenses slightly increased by 2.9% for the six months ended 30 June 2020 as compared with corresponding period of last year. Despite the drop in sales due to COVID-19 epidemic, the Group has been actively promoting new products during the first half of year 2020 and the results were reflected in sales growth of ampoule injections and higher proportion of therapeutic products among infusion solutions. The Group believes that a broader market and product coverage is beneficial to its long-term business development.

GENERAL AND ADMINISTRATIVE EXPENSES

For the six months ended 30 June 2020, general and administrative expenses was approximately HK\$200,847,000 (30 June 2019: HK\$175,333,000) which mainly comprised of salaries expenses for administrative staff of approximately HK\$65,203,000 (30 June 2019: HK\$75,474,000), depreciation and amortisation expenses of approximately HK\$65,021,000 (30 June 2019: HK\$43,349,000) as well as research and development cost (the part being directly expensed) of approximately HK\$27,613,000 (30 June 2019: HK\$32,241,000).

The increase of 14.6% in general and administrative expense as compared to that of the corresponding period last year was mainly caused by higher depreciation expense after the start of bulk pharmaceuticals business under Hebei Guangxiang Pharmaceutical Co., Ltd. (“Hebei Guangxiang”).

PROFIT FROM OPERATIONS

For the six months ended 30 June 2020, the Group’s profit from operations amounted to HK\$307,441,000, representing a decrease of 54.2% as compared to HK\$671,888,000 of the corresponding period last year, with the operating profit margin (defined as profit from operations divided by total revenue) decreased to 17.2% from 28.9% of the corresponding period last year due to a higher level of expenses during the six months ended 30 June 2020.

NET FINANCE COSTS

The Group’s net finance costs slightly increased by 3.5% to HK\$16,112,000 for the six months ended 30 June 2020 (30 June 2019: HK\$15,563,000), which represented mainly interest expenses of bank borrowings net of interest income on bank deposits.

INCOME TAX

The Group believes that Shijiazhuang No. 4 Pharma, Jiangsu Best, Hebei Guolong Pharmaceutical Co., Ltd. and Hebei Hanlin Biotechnology Co., Ltd. were qualified as the High and New Technology Enterprise and thus subject to a 15% preferential income tax in the PRC for both 2020 and 2019. For the six months ended 30 June 2020, the income tax expense decreased by 58.7% to HK\$43,629,000 (30 June 2019: HK\$105,709,000) mainly due to a lower profit before taxation of the Group.

PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS

The profit attributable to equity shareholders of the Company for the six months ended 30 June 2020 decreased by 54.9% to HK\$247,035,000 (30 June 2019: HK\$548,244,000), with net profit margin (defined as profit attributable to equity shareholders of the Company divided by total revenue) decreased to 13.9% from 23.6% of the corresponding period last year.

INTERIM DIVIDEND

The Directors resolved to pay on 23 September 2020 an interim dividend of HK5 cents per share (30 June 2019: HK5 cents per share) amounting to a total of approximately HK\$151,230,000 for the six months ended 30 June 2020 to the shareholders named in the register of members of the Company on 11 September 2020.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 30 June 2020, the Group's cash and cash equivalents increased to HK\$1,104,274,000 (31 December 2019: HK\$817,429,000) which was mostly denominated in RMB.

As at 30 June 2020, the Group's bank borrowings amounted to HK\$2,156,868,000 (31 December 2019: HK\$1,695,857,000), comprising HK\$960,107,000 (31 December 2019: HK\$717,810,000) of borrowings denominated in RMB and HK\$1,196,761,000 (31 December 2019: HK\$978,047,000) in Hong Kong dollars. As at 30 June 2020, all of the Group's bank borrowings were repayable within 5 years, mostly bearing interest at variable rates. Please refer to note 10 to the financial statements for details of repayment, security and fulfilment of covenants.

Gearing ratio (defined as bank borrowings and lease liabilities less cash and cash equivalents divided by total capital less non-controlling interests) increased from 15.0% as at 31 December 2019 to 17.8% as at 30 June 2020. Current ratio (defined as current assets divided by current liabilities) remained stable at 2.14 as at 30 June 2020 (2.13 as at 31 December 2019). Overall, the Group continued to maintain a sound liquidity position and a low-risk capital structure in view of opportunities as well as uncertainties in the future.

As at 30 June 2020, the Group's total capital commitments outstanding but not provided for was HK\$490,238,000 (31 December 2019: HK\$538,249,000).

EMPLOYEES AND REMUNERATION POLICY

As the bulk pharmaceuticals business under Hebei Guangxiang has started, the Group had a need to strengthen its workforce to approximately 4,700 employees as at 30 June 2020 (approximately 4,000 employees as at 30 June 2019), most of whom were based in the PRC. The number of workers employed by the Group varies from time to time depending on its needs. The remuneration policy of employees other than executive Directors and senior management is based on industry practice and is periodically reviewed by executive Directors or senior management. Apart from social insurance and in-house training programmes, other kinds of remuneration such as discretionary bonuses, share options under the Share Option Scheme and shares granted under the Restricted Share Award Scheme may be awarded to employees according to the assessment of individual performance.

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

The total remuneration cost incurred by the Group for the six months ended 30 June 2020 was approximately HK\$196,092,000 (30 June 2019: HK\$221,000,000).

CHARGE ON ASSETS

As at 30 June 2020, the Group's right-of-use assets of HK\$50,611,000 (31 December 2019: HK\$52,156,000) were pledged as collateral for the Group's bank borrowings.

FOREIGN EXCHANGE RISK

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

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

1 January 2019	0.87620
30 June 2019	0.87966
1 January 2020	0.89578
30 June 2020	0.91344

MATERIAL ACQUISITIONS AND DISPOSALS

There was no material acquisition or disposal of subsidiaries or associates during the six months ended 30 June 2020.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Save for the purchase of 2,530,000 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 six months ended 30 June 2020.

During the six months ended 30 June 2020, the Company acquired an aggregate of 2,530,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of HK\$14,150,000 which details are set out below. As at 30 June 2020, 1,702,000 shares have been cancelled. On 17 July 2020, the remaining 828,000 shares were cancelled.

Date of the purchases	Total number of the ordinary shares purchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Aggregate consideration (HK\$)
1 April 2020	1,000,000	5.94	5.67	5,811,000
15 April 2020	702,000	5.97	5.92	4,185,000
29 June 2020	828,000	5.00	4.97	4,154,000
	2,530,000			14,150,000

Subsequent to the six months period ended 30 June 2020 and up to the date of this interim report being 25 August 2020, the Company further acquired an aggregate of 5,200,000 ordinary shares through purchases on the Stock Exchange at an aggregate consideration of HK\$25,819,000.

SHARE OPTION SCHEME

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

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

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

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

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

On 15 April 2016, the Company granted 122,000,000 share options to Mr. Qu Jiguang, the Chairman and the CEO of the Company, under Share Option Scheme, representing about 4.31% of the issued share capital as at the date immediately before share options were granted. The exercise price was HK\$2.58. The exercisable period was from 15 April 2016 to 14 April 2021. Such grant of share options was approved by the independent shareholders at the annual general meeting held on 27 May 2016. During the six months ended 30 June 2020, no (year ended 31 December 2019: 20,000,000) share options were exercised by Mr. Qu Jiguang and, as a result, no (year ended 31 December 2019: 20,000,000) ordinary shares of the Company was issued.

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

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

	Six months ended 30 June 2020	Year ended 31 December 2019
Outstanding at the beginning of the period/year	32,000,000	52,000,000
Granted during the period/year	—	—
Exercised during the period/year	—	(20,000,000)
Lapsed during the period/year	—	—
Outstanding and exercisable at the end of the period/year	32,000,000	32,000,000

The details of share options movements during the six months ended 30 June 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 period	Exercised during the period	Outstanding at 30 Jun 2020
Mr. Qu Jiguang	15 Apr 2016	HK\$2.58	15 Apr 2016 — 14 Apr 2021	32,000,000	—	—	32,000,000

As at 30 June 2020, the share options granted under Share Option Scheme and remained outstanding had a weighted average exercise price of HK\$2.58 (31 December 2019: HK\$2.58) and a remaining contractual life of approximately 0.79 years (31 December 2019: 1.29 years). Assuming that all share options outstanding as at 30 June 2020 are exercised, the Company will receive proceeds of HK\$82,560,000.

RESTRICTED SHARE AWARD SCHEME

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

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

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

DIRECTORS

The Directors during the six months ended 30 June 2020 and up to the date of this Interim 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

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.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 15 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 a Director had a material interest, whether directly or indirectly, subsisted as at 30 June 2020 or at any time during the six months ended 30 June 2020.

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 six months ended 30 June 2020 and as at 30 June 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 30 June 2020 and up to the date of this interim 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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

As at 30 June 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 (Note 1)	Long	32,000,000	1.06%
	Beneficial owner	Long	245,746,000	8.10%
	Interest in a controlled corporation (Note 2)	Long	754,210,000	24.89%
Mr. Wang Xianjun	Beneficial owner	Long	24,416,000	0.80%
Mr. Su Xuejun	Beneficial owner	Long	24,416,000	0.80%

Notes:

- These shares represent the underlying interest in shares of the Company pursuant to share options outstanding as at 30 June 2020 which were granted to Mr. Qu Jiguang on 15 April 2016 under the Share Option Scheme.
- 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 30 June 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 six months ended 30 June 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.

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

As at 30 June 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 (Note 1)	Long	32,000,000	1.06%
	Beneficial owner	Long	245,746,000	8.10%
	Interest in a controlled corporation (Note 2)	Long	754,210,000	24.89%
CPL (Note 2)	Beneficial owner	Long	754,210,000	24.89%

Name of Shareholder	Capacity	Long/short position	Number of shares and underlying shares held	Approximate percentage of the issued share capital of the Company
Sichuan Kelun Pharmaceutical Co., Ltd (四川科倫藥業股份有限公司)	Interest in a controlled corporation (Note 3)	Long	446,852,000	14.74%
	Beneficial owner	Long	159,870,000	5.28%
Kelun International Development Co., Ltd (科倫國際發展有限公司) (Note 3)	Beneficial owner	Long	446,852,000	14.74%
UBS Group AG (Note 4)	Interest in a controlled corporation	Long	277,522,247	9.16%

Notes:

- These shares represent the underlying interest in shares of the Company pursuant to share options outstanding as at 30 June 2020 which were granted to Mr. Qu Jiguang on 15 April 2016 under the Share Option Scheme.
- 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, 982,281 shares were held through cash settled derivatives (off exchange).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”). Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code during the six months ended 30 June 2020.

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). During the six months ended 30 June 2020, the Company has complied with all applicable provisions of CG Code except code provisions A.2.1 and A.6.7 as set out below.

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Board appointed Mr. Qu Jiguang as the Chairman, who was responsible for the leadership and effective running of the Board. Mr. Qu Jiguang has also assumed the role as the chief executive officer of the Company, who was delegated with the responsibilities to lead the management implementing the business strategies of the Group. The Company believes that vesting both roles in Mr. Qu Jiguang will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

Code Provision A.6.7 of the CG Code 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.

INDEPENDENT REVIEW OF AUDITORS

The interim financial report for the six months ended 30 June 2020 is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 *“Review of Interim Financial Information Performed by the Independent Auditor of the Entity”* issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed and approved the interim financial information of the Group for the six months ended 30 June 2020 as contained in this interim report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 14 September 2020 to Thursday, 17 September 2020 (both days inclusive), during which period, no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfer documents, accompanied by the relevant share certificate(s) must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Friday, 11 September 2020.

On behalf of the Board

Qu Jiguang

Chairman

Hong Kong, 25 August 2020



Review report to the board of directors of SSY Group Limited

(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 34 to 60 which comprises the consolidated statement of financial position of SSY Group Limited (the “Company”) as of 30 June 2020 and the related consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2020 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

25 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2020 (unaudited)

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	2020 HK\$'000	2019 HK\$'000
Revenue	4	1,782,833	2,325,829
Cost of sales		(641,572)	(835,573)
Gross profit		1,141,261	1,490,256
Other net income		37,825	8,742
Selling and distribution costs		(670,798)	(651,777)
General and administrative expenses		(200,847)	(175,333)
Profit from operations		307,441	671,888
Finance income		11,731	9,331
Finance costs		(27,843)	(24,894)
Finance costs — net	5(a)	(16,112)	(15,563)
Profit before taxation	5	291,329	656,325
Income tax	6	(43,629)	(105,709)
Profit for the period		247,700	550,616
Other comprehensive income for the period, net of nil tax			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency		(122,309)	(31,576)
Other comprehensive income for the period		(122,309)	(31,576)
Total comprehensive income for the period		125,391	519,040

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2020 (unaudited)

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	2020 HK\$'000	2019 HK\$'000
Profit attributable to:			
Equity shareholders of the Company		247,035	548,244
Non-controlling interests		665	2,372
Profit for the period		247,700	550,616
Total comprehensive income attributable to:			
Equity shareholders of the Company		128,612	517,650
Non-controlling interests		(3,221)	1,390
Total comprehensive income for the period		125,391	519,040
Earnings per share			
	7		
Basic		HK\$0.0815	HK\$0.1817
Diluted		HK\$0.0811	HK\$0.1799

The notes on pages 42 to 60 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in note 12(a).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 (unaudited)

(Expressed in Hong Kong dollars)

	Note	At 30 June 2020		At 31 December 2019	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Property, plant and equipment	8		3,306,571		3,414,398
Right-of-use assets	8		306,515		263,652
Intangible assets	8		575,077		545,509
Deferred tax assets			15,258		13,022
Fixed deposits			131,443		122,798
			4,334,864		4,359,379
Current assets					
Inventories			603,764	506,923	
Trade and bills receivables	9		1,624,477	1,803,279	
Prepayments, deposits and other receivables			298,863	230,070	
Pledged bank deposits and time deposits			8,906	7,262	
Cash and cash equivalents			1,104,274	817,429	
			3,640,284	3,364,963	
Current liabilities					
Borrowings	10		1,066,274	816,915	
Trade payables	11		232,673	171,798	
Contract liabilities			54,594	47,411	
Lease liabilities			3,503	2,394	
Accruals and other payables			328,326	475,283	
Income tax payable			15,399	63,207	
			1,700,769	1,577,008	
Net current assets			1,939,515		1,787,955
Total assets less current liabilities			6,274,379		6,147,334

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 (unaudited)

(Expressed in Hong Kong dollars)

	Note	At 30 June 2020		At 31 December 2019	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current liabilities					
Borrowings	10	1,090,594		878,942	
Lease liabilities		6,430		904	
Deferred tax liabilities		10,265		24,203	
Deferred revenue		50,538		56,137	
			1,157,827		960,186
NET ASSETS			5,116,552		5,187,148
CAPITAL AND RESERVES	12				
Share capital			67,420		67,454
Reserves			4,851,627		4,918,968
Total equity attributable to equity shareholders of the Company			4,919,047		4,986,422
Non-controlling interests			197,505		200,726
TOTAL EQUITY			5,116,552		5,187,148

Approved and authorised for issue by the board of directors on 25 August 2020.

Qu Jiguang
Director

Wang Xianjun
Director

The notes on pages 42 to 60 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020 (unaudited)

(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company										
	Note	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 the six months ended 30 June 2019:											
Profit for the period		—	—	—	—	—	—	548,244	548,244	2,372	550,616
Other comprehensive income		—	—	—	—	—	(30,594)	—	(30,594)	(982)	(31,576)
Total comprehensive income		—	—	—	—	—	(30,594)	548,244	517,650	1,390	519,040
Capital contribution from non-controlling interests		—	—	(1,496)	—	—	—	—	(1,496)	14,388	12,892
Dividends paid to equity shareholders of the Company	12(a)	—	(91,138)	—	—	—	—	(59,563)	(150,701)	—	(150,701)
Shares issued under share option scheme	12(c)	400	55,600	—	—	(4,400)	—	—	51,600	—	51,600
Balance at 30 June 2019 and 1 July 2019		67,488	579,408	176,029	240,147	7,040	(261,110)	3,846,483	4,655,485	155,592	4,811,077
Changes in equity for the six months ended 31 December 2019:											
Profit/(loss) for the period		—	—	—	—	—	—	587,857	587,857	(1,168)	586,689
Other comprehensive income		—	—	—	—	—	(96,220)	—	(96,220)	(3,007)	(99,227)
Total comprehensive income		—	—	—	—	—	(96,220)	587,857	491,637	(4,175)	487,462
Capital contribution from non-controlling interests and acquisition of additional interests in subsidiaries		—	—	1,153	—	—	—	—	1,153	49,309	50,462
Dividends paid to equity shareholders of the Company	12(a)	—	(151,701)	—	—	—	—	—	(151,701)	—	(151,701)
Purchase and cancellation of own shares		(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020 (unaudited)

(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company										
	Note	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 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 the six months ended 30 June 2020:											
Profit for the period		—	—	—	—	—	—	247,035	247,035	665	247,700
Other comprehensive income		—	—	—	—	—	(118,423)	—	(118,423)	(3,886)	(122,309)
Total comprehensive income		—	—	—	—	—	(118,423)	247,035	128,612	(3,221)	125,391
Dividends paid to equity shareholders of the Company	12(a)	—	(108,323)	—	—	—	—	(73,514)	(181,837)	—	(181,837)
Purchase and cancellation of shares	12(b)	(34)	(9,962)	(4,154)	—	—	—	—	(14,150)	—	(14,150)
Balance at 30 June 2020		67,420	299,304	173,028	246,971	7,040	(475,753)	4,601,037	4,919,047	197,505	5,116,552

The notes on pages 42 to 60 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2020 (unaudited)

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
Operating activities			
Cash generated from operations		239,892	277,947
Interest paid		(23,391)	(24,359)
Income tax paid		(106,580)	(108,416)
Net cash generated from operating activities		109,921	145,172
Investing activities			
Purchase of property, plant and equipment		(39,053)	(388,906)
Purchase of intangible assets		(46,429)	(18,417)
Increase of fixed deposits and time deposits		(11,268)	(47,096)
Other cash flows arising from investing activities		10,539	11,164
Net cash used in investing activities		(86,211)	(443,255)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2020 (unaudited)

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	2020 HK\$'000	2019 HK\$'000
Financing activities			
Proceeds from exercise of share options	12(c)	—	51,600
Payments for repurchase of own shares of the Company	12(b)	(14,150)	—
Capital element of lease rentals paid		(1,750)	(1,654)
Interest element of lease rentals paid		(120)	(146)
Proceeds from borrowings		1,012,250	480,033
Repayments of borrowings		(530,765)	(398,128)
Dividends paid to equity shareholders of the Company	12(a)	(181,837)	(150,701)
Proceeds from capital contribution from non-controlling interests		—	12,892
Net cash generated from/(used in) financing activities		283,628	(6,104)
Net increase/(decrease) in cash and cash equivalents		307,338	(304,187)
Cash and cash equivalents at 1 January		817,429	902,062
Effect of foreign exchanges rates changes		(20,493)	(14,345)
Cash and cash equivalents at 30 June		1,104,274	583,530

The notes on pages 42 to 60 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(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. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 25 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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

2. BASIS OF PREPARATION *(continued)*

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on pages 32 to 33.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements. The Company’s annual consolidated financial statements for the year ended 31 December 2019 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2020.

3. 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.

4. REVENUE AND SEGMENT REPORTING

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

(a) Disaggregation of revenue

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

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregation by major products or service lines		
— Sales of pharmaceutical products	1,724,389	2,234,361
— Sales of medical materials	52,674	81,205
— Services income	2,468	4,521
— Sales of raw materials and by-products	3,187	5,621
	1,782,718	2,325,708
Revenue from other source		
— Rental income	115	121
	1,782,833	2,325,829
Disaggregated by geographical location of customers		
— The PRC (place of domicile)	1,691,717	2,251,646
— Other countries	91,116	74,183
	1,782,833	2,325,829

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

4. REVENUE AND SEGMENT REPORTING (continued)

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

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

	Six months ended 30 June 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	1,726,944	53,306	—	1,780,250
Over time	2,468	115	—	2,583
Revenue from external customers	1,729,412	53,421	—	1,782,833
Inter-segment revenue	10,553	49,986	—	60,539
Reportable segment revenue	1,739,965	103,407	—	1,843,372
Operating profit or loss/ segment results	317,609	(751)	(9,417)	307,441
Finance income	11,697	12	22	11,731
Finance costs	(16,380)	—	(11,463)	(27,843)
Profit/(loss) before income tax	312,926	(739)	(20,858)	291,329
Income tax	(43,296)	(333)	—	(43,629)
Reportable segment profit/(loss) for the period	269,630	(1,072)	(20,858)	247,700

4. REVENUE AND SEGMENT REPORTING *(continued)*

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

Six months ended 30 June 2019

	Intravenous infusion solution and others <i>HK\$'000</i>	Medical materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Disaggregated by timing of revenue recognition				
Point in time	2,239,982	81,205	—	2,321,187
Over time	4,521	121	—	4,642
<hr/>				
Revenue from external customers	2,244,503	81,326	—	2,325,829
Inter-segment revenue	6,668	84,421	—	91,089
<hr/>				
Reportable segment revenue	2,251,171	165,747	—	2,416,918
<hr/>				
Operating profit or loss/segment results	674,439	13,932	(16,483)	671,888
Finance income	9,217	67	47	9,331
Finance costs	(12,443)	(462)	(11,989)	(24,894)
<hr/>				
Profit/(loss) before income tax	671,213	13,537	(28,425)	656,325
Income tax	(102,279)	(3,430)	—	(105,709)
<hr/>				
Reportable segment profit/(loss) for the period	568,934	10,107	(28,425)	550,616

4. REVENUE AND SEGMENT REPORTING (continued)

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

	At 30 June 2020			
	Intravenous infusion solution and others <i>HK\$'000</i>	Medical materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	7,411,582	352,768	210,798	7,975,148
Reportable segment liabilities	2,032,680	17,146	808,770	2,858,596
	At 31 December 2019			
	Intravenous infusion solution and others <i>HK\$'000</i>	Medical materials <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	7,366,351	350,833	7,158	7,724,342
Reportable segment liabilities	1,989,746	24,004	523,444	2,537,194

5. PROFIT BEFORE TAXATION

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

(a) Finance income and costs

	Six months ended 30 June	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Finance income:		
— Interest income on bank deposits	(10,411)	(8,943)
— Net foreign exchange gain	(1,320)	(388)
Finance income	(11,731)	(9,331)
Finance costs:		
— Interest expense of borrowings	34,639	31,106
Less: Interest expense capitalised into qualifying assets*	(6,796)	(6,212)
Finance costs	27,843	24,894
Finance costs — net	16,112	15,563

* During the six months ended 30 June 2020, the borrowing costs have been capitalised at a rate of 4.05% per annum (six months ended 30 June 2019: 4.9%).

5. PROFIT BEFORE TAXATION (continued)

(b) Other items

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Research and development costs	84,849	67,322
Less: Costs capitalised into intangible assets	(35,220)	(16,028)
	49,629	51,294
Gain on disposal of property, plant and equipment	(1,153)	(474)
Government grants	(27,911)	(6,158)
Depreciation charges		
— owned property, plant and equipment	139,401	125,699
— right-of-use assets	5,219	4,844
Amortisation of intangible assets	7,853	8,386

6. INCOME TAX

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Current tax — PRC corporate income tax (“CIT”)	56,881	106,302
Deferred taxation	(13,252)	(593)
	43,629	105,709

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

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

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

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

7. 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\$247,035,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$548,244,000) and the weighted average of 3,031,537,000 ordinary shares (six months ended 30 June 2019: 3,017,561,000 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$247,035,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$548,244,000) and the weighted average number of 3,047,931,000 ordinary shares for the six months ended 30 June 2020 (six months ended 30 June 2019: 3,048,315,000 ordinary shares) after adjusting for the effects of dilutive potential ordinary shares under the Company's share option scheme, calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2020 '000	2019 '000
Weighted average number of ordinary shares at 30 June (basic)	3,031,537	3,017,561
Effect of deemed issue of shares under the Company's share option scheme	16,394	30,754
Weighted average number of ordinary shares at 30 June (diluted)	3,047,931	3,048,315

- 8. RIGHT-OF-USE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS**
- (a) Right-of-use assets**
- During the six months ended 30 June 2020, the Group entered into agreements for lease of an office and acquisition of land use right in Hebei Province, and therefore recognised the additions to right-of-use assets of HK\$54,160,000.
- (b) Acquisition and disposal of owned assets**
- During the six months ended 30 June 2020, the Group acquired items of property, plant and equipment and intangible assets with costs of HK\$143,802,000 and HK\$48,275,000 respectively (six months ended 30 June 2019: HK\$370,984,000 and HK\$20,517,000 respectively).
- Items of plant and equipment with a carrying amount of HK\$2,664,000 were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$5,201,000), resulting in a gain on disposal of HK\$1,153,000 (six months ended 30 June 2019: HK\$474,000).
- (c)** As at 30 June 2020, the Group's right-of-use assets with carrying amount of HK\$50,611,000 (31 December 2019: HK\$52,156,000) were pledged as collateral for the Group's bank borrowings (note 10).

9. TRADE AND BILLS RECEIVABLES

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

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Within 3 months	981,179	1,244,219
4 to 6 months	337,898	385,524
7 to 12 months	301,007	179,291
1 to 2 years	26,132	2,682
Less: Loss allowance	(21,739)	(8,437)
	1,624,477	1,803,279

As at 30 June 2020, bills receivable of HK\$245,368,000 (31 December 2019: HK\$130,573,000) represent short-term bank acceptance bills receivable that entitle the Group to receive the full face amount from the banks at maturity, which generally ranges from 3 to 12 months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivable. The Group from time to time endorses bills receivable to suppliers in order to settle payables.

As at 30 June 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 twelve months from the end of the reporting period. In the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations, should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of these bills are of good credit quality and non-settlement of these bills by the issuing banks on maturity is not probable. As at 30 June 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 approximately HK\$334 million (31 December 2019: HK\$573 million). Bills receivable were therefore derecognised.

10. BORROWINGS

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

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Within 1 year or on demand	1,066,274	816,915
After 1 year but within 2 years	28,858	69,315
After 2 years but within 5 years	1,061,736	809,627
	1,090,594	878,942
	2,156,868	1,695,857

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

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Bank borrowings		
— secured	270,406	276,854
— unsecured	1,886,462	1,419,003
	2,156,868	1,695,857

As at 30 June 2020, certain of the Group's borrowings were secured by the Group's right-of-use assets with carrying amount of HK\$50,611,000 (31 December 2019: HK\$52,156,000).

The Group's drawn down bank facilities of HK\$1,806,545,000 (31 December 2019: HK\$1,366,535,000) is subject to the fulfilment of covenants relating to certain specific performance requirements on the Group. If the Group were to breach the covenants, drawn down would become payable on demand. The Group regularly monitors its compliance with covenants. As at 30 June 2020, none of the covenants relating to drawn down facilities had been breached.

11. TRADE PAYABLES

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

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Within 3 months	190,225	147,966
4 to 6 months	32,422	17,062
7 to 12 months	8,707	5,718
1 to 3 years	690	295
More than 3 years	629	757
	232,673	171,798

12. CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Interim dividend declared and paid after the interim period, of HK5.0 cents per share (30 June 2019: HK5.0 cents per share)	151,230	151,701

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

12. CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(a) Dividends *(continued)*

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

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Final dividend proposed after the end of the reporting period of HK6.0 cents per share (30 June 2019: HK5.0 cents per share)	181,837	150,701

The share premium account may be applied by the Company to pay distributions or dividends to the equity shareholders of the Company in accordance with the Company Law of the Cayman Islands.

(b) Purchase and cancellation of own shares

During the six months ended 30 June 2020, the Company repurchased a total of 2,530,000 (six months ended 30 June 2019: nil) ordinary shares of the Company through the Stock Exchange at an aggregate consideration of approximately HK\$14,150,000 (including HK\$51,000 expenses directly attributable to the repurchase).

During the six months ended 30 June 2020, a total of 1,702,000 (six months ended 30 June 2019: nil) ordinary shares were cancelled in accordance with the Company Law of the Cayman Islands.

12. CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Purchase and cancellation of own shares *(continued)*

828,000 repurchased ordinary shares were treated as treasury shares as at 30 June 2020 and subsequently cancelled on 17 July 2020. The consideration paid on such repurchase of HK\$4,154,000 was charged to capital reserve, all of which would be deducted from share capital and share premium when the shares are cancelled.

(c) Equity settled share-based transactions

During the six months ended 30 June 2020, no share options were exercised by the director of the Company. As at 30 June 2020, the total number of share options outstanding and exercisable was 32,000,000 (31 December 2019: 32,000,000).

During the six months ended 30 June 2019, a total of 20,000,000 share options were exercised by one director of the Company, with exercise price of HK\$2.58 at a total consideration of HK\$51,600,000.

13. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The three-level fair value hierarchy of financial instruments as 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

13. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

	Fair value at	Fair value measurements as at		
	30 June	30 June 2020 categorised into		
	2020	Level 1	Level 2	Level 3
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurements				
Financial assets:				
Fair value through other comprehensive income				
— Bank acceptance bills receivable	245,368	—	245,368	—

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

During the six months ended 30 June 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 30 June 2020 and 31 December 2019.

14. COMMITMENTS

Capital commitments outstanding not provided for in the interim financial report

	30 June 2020 HK\$'000	31 December 2019 HK\$'000
Contracted for	332,811	251,996
Authorised but not contracted for	157,427	286,253
	490,238	538,249

15. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Salaries and other benefits	5,423	12,295

(b) Other material related party 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.

During the six months ended 30 June 2020, the Group: (i) purchased materials and received services totalling RMB40,412,000 (equivalent to HK\$44,554,000) (six months ended 30 June 2019: RMB10,656,000 (equivalent to HK\$12,338,000)) from the above related parties; and (ii) sold goods totalling RMB11,909,000 (equivalent to HK\$13,130,000) (six months ended 30 June 2019: RMB14,511,000 (equivalent to HK\$16,804,000)) to the above related parties.

16. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

- (a) After the end of the reporting period, the directors of the Company proposed an interim dividend of HK5.0 cents per ordinary share (see note 12(a)).
- (b) 828,000 repurchased ordinary shares treated as treasury shares as at 30 June 2020, were subsequently cancelled on 17 July 2020 (see note 12(b)).
- (c) After the end of the reporting period, the Group repurchased a total of 5,200,000 ordinary shares of the Group through the Stock Exchange at an aggregate consideration of approximately HK\$25,819,000 (including HK\$92,000 expenses directly attributable to the repurchase), and all such shares were cancelled in accordance with the Company Law of the Cayman Islands.

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

17. IMPACTS OF COVID-19 PANDEMIC

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 novel coronavirus epidemic. The COVID-19 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the developments of the impact on the Group's business and has put in place contingency measures. The Group will keep continuous attention on the situation of the COVID-19 and respond actively to its impact on the financial position and operating results of the Group.