石四藥集團有限公司
SSY Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2005)

2021

Annual Report

CONTENTS

CORPORATE INFORMATION

STOCK CODE

2005

EXECUTIVE DIRECTORS

Mr. Qu Jiguang *(Chairman)*
Mr. Su Xuejun
Mr. Meng Guo *(appointed on 27 August 2021)*
Mr. Chow Hing Yeung *(appointed on 27 August 2021)*
Mr. Wang Xianjun *(resigned on 27 August 2021)*

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. Meng Guo *(appointed on 27 August 2021)*
Mr. Chow Hing Yeung
Mr. Wang Xianjun *(resigned on 27 August 2021)*

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

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

LEGAL ADVISER TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong

AUDITOR

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

WEBSITE

http://www.ssygroup.com.hk

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of SSY Group Limited (the "Company"), I hereby present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2021.

I. RESULT AND DIVIDEND DISTRIBUTION

In 2021, faced with the adjustments in the pharmaceutical market and industrial policy amidst the normality under novel coronavirus epidemic, the Group made concerted efforts to overcome the various adverse effects brought by the epidemic and market competition with its endeavor in operation and implementation of various measures to ensure market support, and thus achieved sustainable growth in volume and revenue of its main businesses. Over the past year, as the Group made strenuous efforts to promote scientific research, innovation and structural optimisation, new products and product types under evaluations have been approved successively, and the Group demonstrated strong advantage in winning tenders of national and local centralised procurement of preparation products. With the accelerated utilisation of the production capacity of main bulk pharmaceuticals and preparations, continuous improvement in the market condition and increasing market shares, the Group delivered favourable performance in promoting the integrated development in relation to the whole industry chain and diversified forms from medical materials, bulk pharmaceuticals to high value-added preparations, providing sufficient momentum for the future development of the Group.

In 2021, the Group achieved a revenue of HK$5,357 million, representing an increase of 25.7% compared to last year, and the gross profit margin was 59.2%, representing a decrease of 4.4 percentage points compared to last year. The net profit was HK$786 million, representing an increase of 28.4% compared to last year. The Directors resolved to pay a final dividend of HK$0.07 per share on 8 June 2022 to the shareholders named in the register of members of the Company on 26 May 2022. Total dividends for the year were HK$0.12 per share, representing an increase of 20% compared to last year.

II. BUSINESS REVIEW

(1) Sales of Products

In response to the new situation of further implementation of reform to the centralised medicines procurement and under the epidemic normality, the Group increased its effort in promoting market development for conventional preparations and main preparations. At the same time, in light of changes in demands from the industrial chain and upholding the principle of overall planning and key breakthrough, the Group stepped up efforts in increasing the production and sales of its major bulk pharmaceuticals and medical materials, so as to ensure a continuously and consistently favourable operation performance overall. Taking the opportunity brought by National Centralised Medicines Procurement as well as provincial and regional Group Purchasing Organisation Programme, the Group continuously expanded the market accessibility of its products. During the year, the Group actively participated in the fourth and fifth round of National Centralised Medicines Procurement and renewal of previous National Centralised Procurement contracts, as well as the tendering of provincial and municipal procurement programmes, price integration and tendering for hospital medicines procurements. 2 types with 4 specifications, namely Ambroxol Hydrochloride Injection (1ml: 7.5mg, 2ml: 15mg, 4ml: 30mg) and Doxofylline Injection (10mg: 0.1g) were awarded the tenders in the fourth round of National Centralised Medicines Procurement. 2 product specifications, namely Fluconazole and Sodium Chloride Injection (100ml: 0.2g Fluconazole and 0.9g Sodium Chloride) and Ropivacaine Hydrochloride Injection (10ml: 100mg PP ampoule), were successfully selected in the fifth round of National Centralised Medicines Procurement. So far, a total of 6 types with 9 specifications of the Group's products have been selected in National Centralised Medicines Procurement, which were promptly put on the market and realised the sales increment, becoming a new growth driver for the benefit of the Group.

II. BUSINESS REVIEW *(CONTINUED)*

(1) Sales of Products *(Continued)*

In addition, the Group carried out online tendering of main products such as Bromhexine Hydrochloride Injection, Metronidazole Injection, Ciprofloxacin Lactate and Sodium Chloride, Linezolid and Glucose Injection, Fluconazole and Sodium Chloride Injection, Medium-chain and Long-chain Triglycerides Lipid Emulsion Injection (C8~24Ve), Terbutaline Sulphate Nebuliser Solution, Lacosamide Tablets and Dexmedetomidine Hydrochloride Injection in over 20 provinces, creating good and accessible conditions to maintain market shares, strengthen its ability for overall development and market penetration of main products and new products, increase sale volume and expand market coverage of products with tenders awarded.

The production and sales of infusion solutions was stable with a slight increase, and the proportion of therapeutic products showed healthy growth. Amidst the normality under epidemic, the domestic pharmaceutical market restored a stable supply and demand condition. As the intravenous infusion solution industry has become increasingly concentrated, the Group continued to increase its market shares and remained its leading position in the infusion market. In 2021, the sales volume of infusion solutions reached approximately 1,358 million bottles (bags), representing an increase of approximately 13.8% compared to last year. The revenue of infusion solutions reached approximately HK$3,304 million, representing an increase of approximately 25.3% compared to last year. In particular, the sales volume of key infusion solution products such as Metronidazole, Levofloxacin Lactate, Ciprofloxacin, Moxifloxacin, Sodium Lactate Ringer and Peritoneal Dialysis Solution reached approximately 205.50 million bottles (bags), representing an increase of approximately 22.4% compared to last year. The sales volume of Metronidazole reached approximately 41.45 million bottles (bags), representing an increase of approximately 67% as compared to last year. The sales volume of Peritoneal Dialysis Solution products reached approximately 2.15 million bottles (bags), representing an increase of 877% as compared to last year.

Ampoule product line has become a powerful boost and new growth driver for the Group's injection segment as it has become increasingly rich in varieties with its production and sales gradually scaled up. The market expansion of ampoule products including Betahistine Hydrochloride Injection has been accelerated. At the same time, the Group's products including Ambroxol Hydrochloride, Doxofylline and Ropivacaine Hydrochloride were successively included for National Centralised Medicines Procurement, forming a new growth point for the Group's ampoule products to achieve rapid breakthrough in scale. Efforts have been made to accelerate the marketing of new ampoule products including Bromhexine Hydrochloride, Terbutaline Sulfate Nebuliser Solution, Dexmedetomidine and Adenosine Cyclophosphate, which have promising market prospect. During the year, the revenue of ampoule products of the Group was approximately HK$1,094 million, representing an increase of approximately 12.6% as compared to last year, which continued to maintain a good growth momentum.

II. BUSINESS REVIEW *(CONTINUED)*

(1) Sales of Products *(Continued)*

In respect of bulk pharmaceuticals business, the Group achieved continuous improvement in sales revenue and substantial increase in sales volume of main products. A number of types of products were granted production approvals, and the product mix has become increasingly diversified. During the year, the revenue from bulk pharmaceuticals reached approximately HK$534 million, representing an increase of 131.9% as compared to last year. The market restored growth momentum with substantial increase in prices. After continuous optimisation of production process, improvement of quality standard as well as transformation and enhancement of environmental protection treatment capacity by the Group, the production capacities of the Group were effectively released, and the product advantages such as cost and quality were further demonstrated. Caffeine achieved a sales volume of 2,758 tonnes during the year, representing an increase of approximately 394% as compared to last year, and its products were sold to various markets such as America, Europe and Asia. Azithromycin achieved a sales volume of 223 tonnes, representing an increase of approximately 40% as compared to last year.

With the Group's continuous efforts in the bulk pharmaceuticals segment, the production capacities of major bulk pharmaceuticals including Caffeine, Theophylline, Aminophylline, Metronidazole, Nifedipine, Azithromycin and Hydroxyethyl starch have been enhanced and the trend of their production and sales was gratifying. New specialised bulk pharmaceuticals, including Terbutaline Sulfate (an anti-asthmatic drug), Linezolid Hydrochloride (an anti-bacterial drug), Cinacalcet Hydrochloride (the only calcium mimetic approved by the US FDA for use in humans), Dexmedetomidine Hydrochloride (providing sedation effect for patients receiving general anesthesia surgery), Lurasidone Hydrochloride and Blonanserin (antipsychotic drugs) and Ipratropium Bromide (a bronchitis drug), have been granted national production approval, and currently efforts have been made to accelerate the progress of industrialisation. Applications for 13 bulk pharmaceuticals, including Ornidazole, Levornidazole, Tinidazole, Tedizolid Phosphate, Urapidil Hydrochloride, Urapidil, Rosuvastatin Calcium, Safinamide Methansulfonate, Entacapone, Stiripentol, Theobromine, Tofacitinib Citrate and Doxofylline (in various fields such as antibacterial, antihypertensive, antilipemics, treatment of hypoglycemic and its complications, Parkinson's disease, asthma and psychoneurological), have been completed and were pending for approval. In addition, approval applications for a batch of newly-developed and high value-added specialised bulk pharmaceuticals, such as Formoterol Fumarate, Etomidate, Vortioxetine Hydrobromide, Benserazide Hydrochloride, Nicorandil, Trelagliptin Succinate, Alogliptin Benzoate, Collagen, Epinephrine and Gadobutrol Contrast Agents (in various fields such as treatment of asthma, anesthesia, psychiatry, cardiovascular and first aid), have been accelerated. New growth drivers for the future development of the bulk pharmaceuticals segment were strengthened.

Solid preparations business segment recorded a steady increase in production and sales. Leveraging on tender awarded for National Centralised Medicines Procurement of Cefdinir capsule and Prucalopride Succinate tablet, the Group connected closely the commercial chain with the end market by stepping up professional promotion and adjusting market layout, so as to promote product, channel and personnel penetration and further improve the product accessibility and brand penetration. Cefdinir capsule and Rosuvastatin Calcium tablet achieved sales in scale within a short period of time, and the market influence expanded to the whole of China, of which Cefdinir capsule achieved sales of HK$54.74 million, representing an increase of approximately 150% as compared to last year.

II. BUSINESS REVIEW *(CONTINUED)*

(1) Sales of Products *(Continued)*

In respect of medical materials, the Group successfully extended its presence into the bioprocessing film industry. Jiangsu Best New Medical Material Co., Ltd. stepped up efforts to strengthen the product upgrade and technology advancement of major medical materials products such as rubber stoppers, infusion films and bioprocessing films, and enhanced the supporting ability of the leading products for production in downstream production chains, which facilitated the enhancement of its production capacity and market coverage, accumulating strength for enhancement of industrialisation scale and quality in the future. Newly developed multi-layer co-extrusion bioprocessing films for single-use system in liquid dosing has been put into industrial production and achieved sales, which is used to replace those imported bioprocessing films and has broad market development prospects. In addition, the Group also made positive progress with a number of new product development projects including bioprocessing films for cell culture, albumin liquid storage bag films and multi-layer co-extrusion high barrier films, playing an important role in accelerating the product upgrading of the medical materials segment and establishing the leading position of the Group in the production as well as research and development of bioprocessing films in the domestic market.

As the export of preparations to foreign countries were limited by multiple factors such as the global pandemic and the surge in international sea freight rates, the export of the Group's preparations to foreign countries were greatly affected. During the year, revenue from the export of preparations amounted to approximately HK$83.72 million, representing a decrease of approximately 50.3% compared to last year, and sales volume from export of infusion solutions was approximately 53.25 million bottles, representing a decrease of approximately 50.1% as compared to last year. During the year, the Group continued to maintain good relationship with international customers and carry out overseas product registration, adding 5 new countries and 11 product registration certificates, actively laying a foundation for future market recovery. Currently, the Group has obtained 322 product registration certificates in almost 100 countries.

(2) Research and Development of New Products

Upholding the innovation-driven strategy, the Group continuously increased the investments and gradience in technological innovation through the innovative platform integrating production, education, research and application, expedited and improved the progress, efficiency and level of R&D of new products. With the positive result from innovation achievements, the Group's product portfolio was increasingly enriched and improved, providing a strong driving force for the sustainable development of the Group. In 2021, based on the cooperation with several universities and scientific research institutes, the Group entered into a strategic cooperation agreement with China Pharmaceutical University (中國藥科大學) to improve the level and grade of scientific research and development and accelerate industrialisation of scientific and technological achievements. During the year, the Group joined hands with China Pharmaceutical University, Shenyang Pharmaceutical University, Lanzhou University and Hebei Medical University to establish several internship and practice bases for undergraduate and postgraduate, in an effort to actively build suitable technology talent reserve for the Group.

II. BUSINESS REVIEW *(CONTINUED)*

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

Taking into account of existing and potential markets, the Group is persistent in pushing forward the integrated research and development of innovative drugs and generic drugs as well as the consistency evaluation of generic drugs, and made great efforts in implementing the business strategy of "bulk pharmaceuticals + preparations", achieving remarkable innovation results. Due to the efforts made by the Group to promote the development of innovative drugs, Type I new drug NP-01, the first innovative drug type of the Group, has entered into the research of Phase I clinical trial. NP-01 is an innovative anti-tumor drug simultaneously targeting of KDR, Met and Axl. Currently, the Group has stepped up efforts to push forward the preliminary research on anti-liver fibrosis Type 1 innovative drug ADN-9, anti-epileptic compound QO-83, self-developed anti-pulmonary hypertension Type 1 innovative drug and anti-tumor Type 2 chemical innovative drug Miriplatin, aiming to apply for clinical trial by the end of 2022. During the year, a total of 20 national production approvals were obtained, including 7 infusion products approved for production namely Ciprofloxacin Lactate and Sodium Chloride Injection, Fluconazole and Sodium Chloride Injection, Metronidazole and Sodium Chloride Injection (100ml and 250ml), Levornidazole and Sodium Chloride Injection, Linezolid and Glucose Injection and Medium-chain and Long-chain Triglycerides Lipid Emulsion Injection (C8~24Ve); 3 types of ampoule namely Bromhexine Hydrochloride Injection, Terbutaline Sulfate Nebuliser Solution and Dexmedetomidine Hydrochloride Injection; 2 solid preparation products namely Lacosamide Tablets (50mg, 100mg); 2 powder injection products namely Azithromycin for Injection (0.25g, 0.5g); and 6 bulk pharmaceutical products namely Terbutaline Sulfate, Linezolid, Dexmedetomidine Hydrochloride, Lurasidone Hydrochloride, Blonanserin and Ipratropium Bromide. The following products were approved in the first three months of 2022: Fluconazole and Sodium Chloride Injection (50ml), Dexmedetomidine Hydrochloride Injection (1ml) Moxifloxacin Hydrochloride tablets, Sodium Chloride Injection, Moxifloxacin Hydrochloride Eye Drops, Cinacalcet Hydrochloride and Epalrestat raw materials have been approved.

During the year, 63 projects were applied for national production approval by the Group, including 39 new types of liquid and solid preparations and 13 bulk pharmaceuticals. In particular, Azithromycin Dry Suspension (a specialised type for children with high clinical demand), Stiripentol Dry Suspension, Blonanserin tablets (a psychotropic drug) and Pentoxifylline Injection and Pentoxifylline sustained-release tablets (cardio-cerebral vascular drugs) were the first of such products being submitted under the new type in China, among which Stiripentol Dry Suspension and Pentoxifylline Sustained-Release tablets were the only domestic one of its kind being submitted for application. Applications for Cefaclor for Suspension for children, Oseltamivir Phosphate for Suspension and Valsartan Amlodipine tablet (a compound preparation), etc. were completed. The continuous expansion of injection, solid preparation and bulk pharmaceuticals product line will help the diversification development of the Group's product mix.

Research results of products for passing consistency evaluations was convincing. During the year, 7 product specifications of the Group, namely Ciprofloxacin Lactate and Sodium Chloride Injection, Fluconazole and Sodium Chloride Injection, Metronidazole and Sodium Chloride Injection (100ml and 250ml) and Ambroxol Hydrochloride Injection (1ml, 2ml and 4ml), have passed the consistency evaluations. In particular, 2 products, namely Ciprofloxacin Lactate and Sodium Chloride Injection together with Metronidazole and Sodium Chloride Injection (250ml), were both the first one of passing such evaluation in China. From January to March of 2022, there are another 5 products which passed the consistency evaluation. Currently, 20 types with 28 product specifications of the Group have passed consistency evaluation or have been regarded as passing the consistency evaluation, which played a stronger facilitation and stimulation role in consolidating and expanding market shares.

II. BUSINESS REVIEW *(CONTINUED)*

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

Combining with fundamental and innovative researches, the protection of intellectual property rights is progressively achieved on the same pace. As of now, the Group has cumulatively applied for 288 patents and received authorisation of 170 patents, including 68 invention patents in China and 5 international invention patents.

(3) Development of Projects

Acceleration in reform and construction of industry infrastructure projects is essential to the enhancement of production capability of the Group, satisfaction of market demands and optimisation of product mix. The Group took advantage of the favorable opportunity to accelerate the commercialisation process for new products, actively integrated the development of technological transformation projects with business optimisation, intelligent manufacturing, refined management and channel development, constructed and built intelligent factories, enhanced the level of intelligent manufacturing, and realised the cost reduction, efficiency improvement, quality assurance as well as safety and environmental protection in an effective and consistent manner. In 2021, the Group's industrialisation projects for 15 new products, such as Lyophilized Powder Injection and Emulsion, were included in Thousands of Technological Transformation Projects（千項技改項目）in Hebei Province. With the support of preferential policies for the enterprises promulgated by the governments at all levels, efforts have been made to accelerate the implementation process for the major technology improvement projects, which began to show positive results.

The bulk pharmaceuticals segment of Hebei Guangxiang Pharmaceutical Co., Ltd. and Hebei Guolong Pharmaceutical Co., Ltd. strived to explore its development potential through technology improvement, and stepped up efforts in production process optimisation, equipment modification and environmental protection upgrade, leading to remarkable improvement in production capacity, environmental protection performance and safety protection level.

The construction project of bioprocessing film of Jiangsu Best began as scheduled. The new product, 7-layer bioprocessing barrier films of 1.6 metres width, has been put into trial production by the end of 2021, and samples were provided to customers for testing. Together with the second production line for 7-layer bioprocessing barrier films which is targeted to commence trial production in June 2022, the annual production capacity of bioprocessing films will increase by 20 million square metres, thus enhancing the Group's ability in market supply.

(4) Capital Operation

In light of the new development and new changes in the capital market as well as the actual needs of the Group to strengthen, expand and optimise its business operation, the Group proactively facilitated the spin-off listing of its medical materials segment and bulk pharmaceuticals segment in China during the year. Currently, application for listing on the National Equities Exchange and Quotations in respect of the medical materials segment has been accepted, and follow-up works are in progress orderly. In addition, in light of the current development of the industry, the Group completed the acquisition of 6.1% of the equity interest in Cisen Pharmaceutical Co., Ltd. in a timely manner in 2021, which is expected to bring long-term return and new development opportunity for the Group. To ensure stable supply and quality of raw materials for caffeine and to reduce raw material costs cost and create synergistic effects, the Group has acquired as a vertical integration of the whole of the equity interest in Cangzhou Lingang Youyi Chemical Co., Ltd. ("Youyi Chemical") in March 2022. The completion of the acquisition provided important supports and guarantees for the enhancement of stable supply for the caffeine production chain, optimisation of production costs and achievement of the goal of an annual production of 7,000 tonnes of caffeine.

III. PROSPECTS FOR DEVELOPMENT

Looking ahead in 2022, the economic situation will remain complicated and dynamic amidst the normality under global pandemic. Facing the combined pressure arising from external factors that may persist and bring various challenges to the Group's production and operation, the Group will push forward the supply-side structural reform. The Group will make effort to promote the dual circulation development of domestic and international markets, expand its operation advantages and mitigate the impacts and restraints from negative factors, so as to maintain the momentum of a positive cycle for its stable development and strive to achieve more solid operating results.

1. The Group will make coordinated efforts to improve quality and enhance efficiency of the preparation segment by optimizing structure and increasing sales volume. By focusing on its core injection business of injections, the Group will further develop its existing market and make continuous effort to explore new markets, with an aim to establish a new development landscape. In 2022, the Group will make an in-depth and better systematic analysis on the national and local centralised procurement policies, seize good opportunity for precise market access with a key focus on price, and basically maintain steady price. Capitalizing on the radiation and driving effects of the Group Purchasing Organisation Programme, the Group will strive to increase market shares and expand the proportion of high value-added products in terms of production and sales volume, with an aim to improve its profitability and maintain its leading position in the market. Through various means including adjustment of market layout, tendering access and control model, the Group will focus to increase the sales volume of major types of therapeutic infusion products such as Levofloxacin Lactate, Sodium Bicarbonate, Ambroxol, Tinidazole, Fluconazole and Ciprofloxacin, with an aim to further improve the profitability of the infusion segment. In 2022, the target production and sales volume of infusion products is 1,500 million bottles (bags), representing an increase of approximately 10.5% as compared to last year. The Group will further expand, strengthen and optimise its ampoule liquid injection business, step up effort to increase sales of new ampoule products, and explore the market potential that may exceed RMB100 million revenue of ampoule types such as Betahistine Hydrochloride and Bromhexine, continuing to make a greater contribution to the development of the Group's injections segment. The Group will arrange its products that have passed the evaluation to participate in the seventh and eighth round of National Centralised Medicines Procurement activities. In addition, the Group will proactively push forward the industrialisation and marketisation of the solid preparation products that were recently approved. Leveraging on the National Centralised Medicines Procurement, the Group will accelerate the expansion of production capacity and market shares, with an aim to expand and strengthen its solid preparation segment. At the same time, the Group will push forward the promotion and usage of bioprocessing films in China, increase its market shares and strive to strengthen its industry position and product influence in the field of medical materials, creating good conditions for the listing of its medical materials segment.

III. **PROSPECTS FOR DEVELOPMENT** *(CONTINUED)*

2. The Group will seize market opportunities to expand its bulk pharmaceuticals business for capturing market and making a greater contribution to the development of the Group. With the goal of improving capacity utilisation and reducing costs, the Group will strengthen fundamental management works such as technological advancement, safety and environmental protection. We will improve management ability of our team, speed up utilisation of production capacity, and enhance the overall level in terms of scale, modernisation and marketisation of the Group's bulk pharmaceuticals business. In 2022, production volumes of major products caffeine and Azithromycin are targeted to reach 7,000 tonnes and 450 tonnes, representing a year-on-year increase of approximately 154% and approximately 102%, respectively, and the annual target of Methylamine in the newly acquired company Youyi Chemical is 28,000 tonnes. The significant increase in production output of the above three major bulk pharmaceuticals and intermediate pharmaceuticals products will make substantial contribution to the benefits of the Group in 2022. In the meantime, we will seize the favorable opportunity brought by the recovery of international market demand for caffeine, and continue to secure orders from target customers in America, Europe, South Asia and Southeast Asia, etc. to achieve the expected target sales volume and revenue, in an effort to reach a 100% production to sales ratio and lay a solid foundation for pushing forward the listing of the bulk pharmaceuticals segment on the domestic A-share market.

3. By benchmarking with advanced enterprises, the Group will establish innovative system and mechanism that are beneficial for the development of the Group, with an aim to push forward the Group's research & development and innovative business to a new stage.

   Firstly, the Group will proactively construct and develop an innovative high-energy ecosystem, explore the advantages of convergence of technology, talents and capital to continuously improve the levels and grades of innovation development. Leveraging on its advantage in cooperation and jointly-built think tank with universities, academicians, scientific research institutes, healthcare institutions and upstream and downstream enterprises of the industry, the Group will push forward the cooperation with national tertiary institutions in innovative drug research for new breakthroughs. In addition, the Group will promote the construction of an industrial ecosystem of organic innovation and cooperation, empower continuously the Group's innovation ability and efficiency of research and development business, and enhance the effectiveness of corporate innovation and core competitiveness of the Group.

   Secondly, adhering to the strategy of "combination of generic and innovative drugs", the Group will make concerted effort to enhance the efficiency in the research and development of its advantageous products in generic drugs, innovative drugs, bulk pharmaceuticals and medical materials, accumulating strength for the sustainable development of the Group. The Group will continue to step up efforts in the research and development of drugs for chronic diseases, circulatory systems, emergency anesthesia drugs, antipyretic and analgesic drugs, new anti-infective drugs, anti-viral drugs and anti-tumor drugs, as well as bulk pharmaceuticals and medical materials, building up innovation advantage to fit in the development of the Group and meet market demand. In 2022, the Group will strive to obtain national production approval for 40 products including 22 approvals for liquid preparations, 9 approvals for solid preparations and 9 approvals for bulk pharmaceuticals. The Group will strive to make new breakthroughs in the research and development of innovative drugs. The Group will push forward the phase I clinical trial of anti-tumor Type 1 innovative drug NP-01 and strive to apply for phase II clinical trials as soon as possible, and speed up preliminary researches on anti-liver fibrosis Type 1 innovative drug ADN-9, anti-epileptic compound QO-83, self-developed anti-pulmonary hypertension Type 1 innovative drug and anti-tumor Type 2 chemical innovative drug Miriplatin, so as to submit the application for registration of clinical trial as soon as possible. Meanwhile, the Group will make in-depth study of the development and technology of bioprocessing films, and accelerate the research and production of market-foresighting multi-layer co-extrusion high barrier films on the basis of improving the existing cell culture bag films and albumin liquid storage bag film product series, forming core advantages in research and development of domestic bioprocessing film production with comprehensive functions, full variety and leading technologies.

III. PROSPECTS FOR DEVELOPMENT *(CONTINUED)*

4. The Group will continue to proactively push forward the spin-off listing of its medical materials segment and bulk pharmaceuticals segment on the domestic market. At the same time, the Group will actively seek opportunities of merger and acquisition as well as investment in the pharmaceutical industry. The intensifying market competition and the guidance of national policies will trigger more mergers and acquisitions in the pharmaceutical industry. Combining its own advantages, the Group will seize the opportunities of merger and acquisition as well as investment in order to strengthen its market position and product position so as to increase its return on investment.

Facing the persistent risks and challenges in the post-pandemic era, the pharmaceutical industry will be confronted with the greatest changes in this century. Self-developed innovation driven by market demand, the integration and collaboration based on controllable supply chain, and the enhanced efficiency brought by the trend of digital transformation will become the important drivers for the progress and breakthroughs of the overall industry and the Group. While accelerating the optimisation of industrial structure, improvement of sales of product and construction progress of infrastructure projects, the Group will expedite the progress of spin-off listing of the medical materials segment and bulk pharmaceuticals segment, and strive for a win-win situation in the product and capital market.

As one of the top 100 enterprises in China pharmaceutical industry and the top 30 best industrial enterprises with China pharmaceutical research and development product line, the Group will take full advantage of the excellent development opportunities arising from the positive changes in the domestic pharmaceutical market, the promotion of the construction and development of provincial capitals in Hebei Province, and the promotion of supporting the biopharmaceutical industry to make breakthroughs in Shijiazhuang and Cangzhou. We will grasp the initiative of development, maintain the resilience and vitality of innovative development, and strive for facilitating the quality development of the Group. By virtue of the scale, quality, management and brand advantages accumulated in the industry over the years and the continuous innovation momentum released by the Group, we firmly believe that we will be able to create new high record in terms of production output, sales and profit in 2022, and bring satisfactory returns to our investors with a stronger result of development.

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, 29 March 2022

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 and ampoule injection to hospitals and distributors, bulk pharmaceuticals and medical materials. The Group has manufacturing plants in Hebei Province and Jiangsu Province, the People's Republic of China (the "PRC"), and sells to customers mainly in the PRC.

For the year ended 31 December 2021, 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 pharmaceutical products 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 pharmaceutical products in the PRC as the Group's principal risks and uncertainties.

During year 2021, 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 intravenous infusion solution and ampoule injection products are not included under the GPO. Nevertheless, the Group has completed consistency evaluations for selected products in order to be qualified for the GPO. On the other hand, the Group has committed in product diversification in recent years. Higher sales in bulk pharmaceutical products and the introduction of new medical material products have significantly improved the product mix of the Group so that the overall impact of the GPO have been mitigated. The Group will keep continuous attention on the change of situation and make timely responses.

Save as the abovementioned principal risks and uncertainties, other risks and uncertainties had been evaluated by the Company as set out in the Chairman Statement and note 27 to the financial statement.

Compliance with laws and regulations

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

Environmental policies and performance

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

BUSINESS REVIEW *(Continued)*

Relationships with employees, suppliers and customers

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

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

Please refer details of the Group's relationships with employees, suppliers and customers to the respective sections in the Environmental, Social and Governance Report.

Acquisition of an associate

On 29 July 2021, the Group entered into an acquisition agreement to purchase 27,661,441 shares (representing 6.1015% of its equity interest as at 29 July 2021) of Cisen Pharmaceutical Co., Ltd.(辰欣藥業股份有限公司), a company established under the laws of the PRC and the shares of which are listed on the Shanghai Stock Exchange (stock code: 603367), at the total consideration of approximately RMB354 million (i.e. RMB12.80 per share). Please refer to the Company's announcement dated 29 July 2021 for details of the acquisition. Cisen Pharmaceutical Co., Ltd. and its subsidiaries (the "Cisen Pharmaceutical") are principally engaged in the business of research and development, production and sales of pharmaceuticals of mainly chemical preparations, with five major dosage forms among its products: large-volume injections (including non-PVC soft bags, plastic bottles, upright soft bags, glass bottles), freeze-dried powder injections, small-volume injections, tablets form and capsules form. Having considered the business model, financial performance and competitive advantages of the Cisen Pharmaceutical, the Group was optimistic towards the prospects and development of the Cisen Pharmaceutical and was positive about the long term returns from the investment in the Cisen Pharmaceutical. The Group considers that it was a good time to utilize its available capital for investment so as to generate returns in fulfilling its investment objective through the acquisition. During the year ended 31 December 2021, Cisen Pharmaceutical Co., Ltd. was recognized as an investment in associate over which the Group has significant influence, and the Group's share of the Cisen Pharmaceutical's profits was approximately HK$5,426,000.

FINANCIAL PERFORMANCE REVIEW

Revenue

	2021		2020		
	Sales	**Percentage of sales**	Sales	Percentage of sales	Increase/ (Decrease)
	HK$'000	**%**	*HK$'000*	%	%
Intravenous infusion solution and others	**5,179,586**	**96.7**	4,141,579	97.2	25.1
(Including: Non-PVC soft bag & upright soft bag infusion solution	**2,312,295**	**43.2**	1,696,131	39.8	36.3
PP plastic bottle infusion solution	**764,057**	**14.2**	696,861	16.4	9.6
Glass bottle infusion solution	**228,013**	**4.3**	244,003	5.7	(6.6)
Ampoule injection	**1,093,615**	**20.4**	971,508	22.8	12.6
Bulk pharmaceuticals	**533,860**	**10.0**	230,217	5.4	131.9
Others)	**247,746**	**4.6**	302,859	7.1	(18.2)
Medical materials	**177,177**	**3.3**	119,319	2.8	48.5
Total	**5,356,763**	**100**	4,260,898	100	25.7

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

Majority of the Group's sales are conducted in the PRC. During the year 2021, as the novel coronavirus epidemic has been under control in the PRC, the pharmaceutical market has been showing signs of recovery from last year. In terms of Hong Kong dollars ("HK$"), revenue of the Group for the year ended 31 December 2021 increased by 25.7% to HK$5,356,763,000 (2020: HK$4,260,898,000) on a year-to-year basis. Among which, revenue from intravenous infusion solution accounted for HK$3,304,365,000 (2020: HK$2,636,995,000), representing an increase of 25.3% on a year-to-year basis. Among which, revenue from Non-PVC Soft Bag and Upright Soft Bag infusion solution were HK$1,724,474,000 and HK$587,821,000 respectively, totalling HK$2,312,295,000, representing 70.0% of the total revenue from intravenous infusion solution and an increase of 36.3% as compared with last year; revenue from PP Plastic Bottle infusion solution was HK$764,057,000, representing 23.1% of the total revenue from intravenous infusion solution and an increase of 9.6% as compared with last year; revenue from Glass Bottle infusion solution was HK$228,013,000, representing 6.9% of the total revenue from intravenous infusion solution and a decrease of 6.6% as compared with last year.

FINANCIAL PERFORMANCE REVIEW *(Continued)*

Revenue *(Continued)*

On the other hand, the Group has put a lot of effort in product diversification. The Group has been promoting high-end ampoule injections products in view of its high growth potential, as a result, revenue from ampoule injections accounted for HK$1,093,615,000 (2020: HK$971,508,000), representing an increase of 12.6% on a year-to-year basis.

Revenue from bulk pharmaceuticals accounted for HK$533,860,000 (2020: HK$230,217,000), representing a significant growth of 131.9% as compared with last year mainly due to a recovery growth of market demand for bulk pharmaceuticals and an increase in the utilization in the Group's production capacity in bulk pharmaceuticals.

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

Revenue from medical materials products contributed HK$177,177,000 (2020: HK$119,319,000) to the Group, representing an increase of 48.5% as compared with last year mainly due to market recovery from last year.

Cost of Sales

During the year ended 31 December 2021, the Group has adopted various cost control measures such as production process optimization, equipment modification and energy conservation. Nevertheless, due to increase in sales volume and under a general trend of rising costs in production, the Group's cost of sales increased by 40.8% to HK$2,186,517,000 for the year ended 31 December 2021 as compared to last year of HK$1,552,523,000. The cost of direct materials, direct labour and other costs represented approximately 57.4%, 14.4% and 28.2% of the total cost of sales respectively for the year ended 31 December 2021 while their comparative percentages for 2020 were 54.9%, 16.5% and 28.6% respectively.

Gross Profit Margin

For the year ended 31 December 2021, the Group recorded a total gross profit of HK$3,170,246,000 (2020: HK$2,708,375,000). Overall gross profit margin decreased by 4.4 percentage point to 59.2% from that of last year 63.6%, which was mainly due to a general trend of rising costs in production and an increased proportion of revenue from bulk pharmaceuticals which had a lower gross profit margin as compared to finished medicines.

Other Income

For the year ended 31 December 2021, the Group's other income increased to HK$84,291,000 (2020: HK$71,717,000) which mainly represented government grants.

Selling and Distribution Costs

For the year ended 31 December 2021, selling and distribution costs amounted to approximately HK$1,707,028,000 (2020: HK$1,613,294,000), which was mainly consisted of advertising, marketing and promotion expenses of HK$1,102,221,000 (2020: HK$1,131,496,000), transportation cost of approximately HK$436,043,000 (2020: HK$360,235,000), as well as salary expenses for sales and marketing staff of approximately HK$71,614,000 (2020: HK$63,853,000).

Selling and distribution costs increased by 5.8% for the year ended 31 December 2021 as compared with last year due to increase in sales volume as compared to the year 2020. Such increase was lower than revenue growth as compared with last year because of (i) an increased proportion of revenue from bulk pharmaceuticals which had a lower level of selling costs as compared to finished medicines and (ii) a lower level of promotion expenses of finished medicines.

FINANCIAL PERFORMANCE REVIEW *(Continued)*

General and Administrative Expenses

For the year ended 31 December 2021, general and administrative expenses was approximately HK$309,941,000 (2020: HK$281,339,000) which mainly comprised salaries expenses for administrative staff of approximately HK$155,119,000 (including a one-off non-cash expense arising from grant of share options to administrative management staff of approximately HK$28,161,000) as well as depreciation and amortisation (other than research and development) expenses of approximately HK$93,344,000.

The increase of 10.2% in general and administrative expenses in year 2021 as compared to that of year 2020 was mainly caused by the one-off expense from grant of share options during the year ended 31 December 2021 whereas there was no grant of share options during the year 2020.

Research and Development Cost

For the year ended 31 December 2021, research and development costs amounted to HK$247,992,000 (2020: HK$126,901,000), which comprised salaries expenses for research and development staff of approximately HK$122,858,000 as well as depreciation and amortisation expenses of approximately HK$39,224,000.

Research and development cost increased significantly by 95.4% for the year ended 31 December 2021 as compared with last year. Undergoing the process of enterprise transformation and product diversification, the Group expanded and expedited the research and development of new products in drug preparations, bulk pharmaceuticals as well as medical materials. Furthermore, a one-off non-cash expense arising from grant of share options to R&D management staff during the year ended 31 December 2021 of approximately HK$36,878,000 (2020: nil) has resulted in the increase in research and development costs.

Profit from Operations

For the year ended 31 December 2021, the Group's profit from operations amounted to HK$988,085,000, representing an increase of 30.2% as compared to HK$758,882,000 in year 2020. The operating profit margin (defined as operating profit divided by total revenue) increased to 18.4% as compared to 17.8% in year 2020.

Finance Costs – Net

The Group's net finance costs, costs, which represented mainly interest expenses of bank borrowings and foreign exchange loss less interest income on bank deposits, increased by 34.0% to HK$45,114,000 for the year ended 31 December 2021 (2020: HK$33,667,000) mainly due to a higher level of the Group's bank borrowings.

Income Tax Expense

The Group believes that Shijiazhuang No. 4 Pharma, Jiangsu Best, Hebei Guangxiang, Hebei Guolong and Hebei Hanlin Biotechnology Co., Ltd. have been certified as High and New Technology Enterprises and thus subject to a reduced corporate income tax of 15% in the PRC for year 2021. For the year ended 31 December 2021, the income tax expense of the Group increased by 40.0% to HK$160,104,000 (2020: HK$114,396,000) mainly due to a higher profit before taxation of the Group.

FINANCIAL PERFORMANCE REVIEW *(Continued)*

Profit Attributable to Equity Shareholders

For the year ended 31 December 2021, profit attributable to equity shareholders of the Company increased by 28.4% to HK$785,533,000 (2020: HK$611,971,000), with net profit margin (defined as profit attributable to equity shareholders of the Company divided by total revenue) increased from 14.4% last year to 14.7% this year.

Dividends

For the year ended 31 December 2021, the Board recommended a final dividend of HK$0.07 per share (2020: HK$0.05 per share) which, together with the interim dividend of HK$0.05 per share (2020: HK$0.05 per share), will result in total dividends of HK$0.12 per share for the year ended 31 December 2021 (2020: HK$0.10 per share).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 31 December 2021, the Group's cash and cash equivalents increased to HK$1,661,736,000 (31 December 2020: HK$1,445,905,000), mostly were denominated in Renminbi ("RMB").

As at 31 December 2021, the Group's bank borrowings amounted to HK$3,103,195,000 (2020: HK$2,427,072,000), comprising HK$1,700,772,000 (2020: HK$1,082,411,000) of borrowings denominated in RMB and HK$1,402,423,000 (2020: HK$1,344,661,000) in Hong Kong dollars. As at 31 December 2021, all of the Group's bank borrowings were repayable within 5 years, mostly bearing interest at variable rates. Please refer to note 20 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 14.9% as at 31 December 2020 to 18.9% as at 31 December 2021 mainly due to a higher level of the Group's bank borrowings. Current ratio (defined as current assets divided by current liabilities) further improved from 2.01 as at 31 December 2020 to 2.04 as at 31 December 2021.

As at 31 December 2021, the Group's total capital commitments outstanding but not provided for was HK$589,477,000 (31 December 2020: HK$477,237,000).

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

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2021, the Group had approximately 4,800 employees (2020: 4,700 employees), most of whom were based in the PRC. The remuneration policy of employees other than executive Directors and senior management is based on industry practice and is periodically reviewed by executive Directors or senior management. Apart from social insurance and in-house training programmes, other kinds of remuneration such as discretionary bonuses, share options under the Share Option Scheme and shares granted under the Restricted Share Award Scheme may be awarded to eligible employees according to the assessment of individual performance. Please refer details of the Share Option Scheme and the Restricted Share Award Scheme to the respective sections in the Report of the Directors. Please refer details of the remuneration policy of executive Directors and senior management to the section headed "REMUNERATION COMMITTEE" in the Corporate Governance Report.

The total remuneration cost incurred by the Group for year ended 31 December 2021 was approximately HK$663,929,000 (2020: HK$469,423,000) including a one-off non-cash expense of HK$67,050,000 (2020: nil) arising from grant of share options to management staff of the Group.

CHARGE ON ASSETS

As at 31 December 2021, the Group's right-of-use assets of HK$54,746,000 (2020: HK$54,347,000) were pledged as collateral for the Group's certain bank borrowings.

FOREIGN EXCHANGE RISK

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

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

1 January 2020	0.89578
31 December 2020	0.84164
31 December 2021	0.81760

MATERIAL ACQUISITIONS AND DISPOSALS

Saved as disclosed above under the heading "Acquisition of an associate", there was no material acquisition or disposal of subsidiary or associate for the year ended 31 December 2021.

CONTINGENT LIABILITIES

As at 31 December 2021, the Group did not have any significant contingent liabilities.

DIRECTORS

Executive directors

Mr. Qu Jiguang (曲繼廣先生), aged 67, an executive director and the chairman of the Board of the Company. Mr. Qu is responsible for the strategic planning, business development and overall management of the Group. Mr. Qu is also the chief executive officer of the Company who is responsible to lead the management implementing the business strategies of the Group. Mr. Qu joined Shijiazhuang No. 1 Pharmaceutical Factory ("No. 1 Pharma") as deputy factory manager in 1995. He later became a director and the vice general manager of Shijiazhuang Pharmaceutical Group. From December 2004, Mr. Qu has been the chairman of New Orient Investments Pharmaceutical Holding (Hong Kong) Limited, a wholly owned subsidiary of the Company ("New Orient"), the chairman of China Pharmaceutical Company Limited, a controlling shareholder of the Company ("CPCL") and the chairman of CMP Group Limited ("CMP"). Mr. Qu was an independent non-executive Director of the Company and was an executive director of China Pharmaceutical Group Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from February 2001 to September 2004. Mr. Qu graduated from Tianjin Finance College with a postgraduate degree in Finance in 1999. He is also an economist accredited by The Ministry of Personnel of China. Mr. Qu has over 30 years of experience in pharmaceutical industry. He has key roles in China Pharmaceutical Industry Association (中國化學製藥協會), Hebei Provincial Association of Enterprise (河北省企業聯合會) and Hebei Pharmaceutical Industry Association (河北省醫藥行業協會).

Mr. Su Xuejun (蘇學軍先生), aged 54, an executive director. Mr. Su is currently the chairman of the Board of Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No. 4 Pharma"), the Company's indirectly wholly-owned subsidiary. Mr. Su focuses in the pharmaceutical market development, operations and management. He has extensive understanding and experience in sales and marketing as well as the policy in pharmaceutical related industries. Mr. Su joined No.1 Pharma as assistant to factory manager in 1990. And afterwards he served as deputy general manager of a subsidiary of the Shijiazhuang Pharmaceutical Group selling preparations, deputy general manager of Shijiazhuang No.4 Pharma and general manager of Shijiazhuang No.4 Pharma. Since January 2007, Mr. Su acts as executive director of Shijiazhuang No.4 Pharma and New Orient. He is currently a Representative of the 13th People's Congress of Hebei Province (河北省第十三屆人民代表大會代表). Mr. Su graduated from Hebei Normal University, majoring in biology, with a bachelor's degree.

Mr. Meng Guo (孟國先生), aged 48, an executive director. Mr. Meng is currently the deputy general manager of the Company, a director of New Orient and Shijiazhuang No. 4 Pharma and Hebei Guolong Pharmaceutical Co., Ltd, all being wholly-owned subsidiaries of the Company, and the executive president in charge of finance and information-based operations of Shijiazhuang No. 4. After joining Shijiazhuang No. 4 Pharma in year 2001, Mr. Meng held the positions of deputy head and manager of the finance department of Shijiazhuang No. 4 Pharma, and has over 20 years of experience in corporate finance, tax and information technology management. Mr. Meng has consistently participated in investors' relations duties of the Company. Mr. Meng holds a Bachelor's degree in Mathematics from Lanzhou University and a Master's degree in Software Engineering from Beijing University of Technology. He also holds the qualification of senior accountant in the People's Republic of China.

Mr. Chow Hing Yeung (周興揚先生), aged 43, an executive director. Mr. Chow is currently the Chief Financial Officer and Company Secretary of the Company. Mr. Chow obtained a Bachelor's degree of Business Administration from the Chinese University of Hong Kong. Before joining the Company in August 2011, he worked in PricewaterhouseCoopers and financial department of listed companies in Hong Kong, and has around 20 years of experience in audit, accounting and financial management. Mr. Chow has consistently participated in investors' relations duties of the Company. He is a member of the Hong Kong Institute of Certified Public Accountants.

DIRECTORS *(Continued)*

Non-executive director

Mr. Feng Hao (**馮昊先生**) aged 41, a non-executive Director. Mr. Feng currently serves as a deputy general manager and the secretary to the board of directors of Sichuan Kelun Pharmaceutical Co., Ltd. ("Sichuan Kelun"). Mr. Feng has a Master's degree; was a teacher at the School of Economics at Huazhong University of Science and Technology; an analyst at the Actuarial Division of Taiping Life Insurance Company Limited; an actuarial advisory consultant at Watson Wyatt Consultancy (Shanghai) Ltd.; a senior manager at the investment banking division of Ping An Securities Limited; and a business director at the investment banking division of Sinolink Securities Co. Ltd. Since April 2014, Mr. Feng has been a senior management of Sichuan Kelun.

Independent non-executive directors

Mr. Wang Yibing(**王亦兵先生**), aged 59, an independent non-executive Director. Mr. Wang graduated from Shenyang Pharmaceutical University, majored in pharmacy(瀋陽藥科大學藥學). Mr. Wang joined Heibei Provincial Pharmaceutical Research Centre(河北省藥物研究所)in July 1983 and became supervisor in research centre of pharmacodynamics, research centre of preparations, the pharmaceutical factory and scientific research management centre successively. In 1991, Mr. Wang joined the General Economics Division of Hebei Provincial Administration of Medicine(河北省醫藥管理局綜合經濟處)as vice supervisor and was promoted to supervisor and the deputy director successively. From April 2000 to July 2005, he was the Director of Division of Drug Registration and Division of Drug Safety and Inspection of Hebei Food and Drug Administration(河北省食品藥品監督管理局藥品註冊處，藥品安全監管處). Mr. Wang possesses over 30 years' experience in pharmaceutical research, production and industry regulation, is familiar with pharmaceutical laws and regulations and drug inspection procedures. He has profound exposure in the areas of pharmaceutical research, production, circulation and application, while comprehends and provides insights into the overall situation and trend of development of the pharmaceutical industry at both the provincial and state levels.

Mr. Leung Chong Shun(**梁創順先生**), aged 56, an independent non-executive Director. Mr. Leung is also an independent non-executive director of China Coal Energy Company Limited (Stock code: 1898), China Medical System Holdings Limited (Stock code: 867) and Min Xin Holdings Limited (Stock Code: 222), companies listed on the Stock Exchange. He served as an independent non-executive director of China Metal Recycling (Holdings) Limited (Stock code: 773) from May 2009 to August 2013, China Communications Construction Company Limited (Stock Code: 1800) from January 2011 to November 2017 and China National Materials Company Limited (Stock code: 1893) from July 2007 to May 2018. Mr. Leung graduated from the University of Hong Kong with a Bachelor of Laws degree in 1988 and obtained the Postgraduate Certificate in Laws in 1989. Mr. Leung was qualified as a solicitor in Hong Kong in 1991 and England & Wales in 1994. He has been a partner of Woo Kwan Lee & Lo, a law firm in Hong Kong, since 1997 and is experienced in corporate finance. Mr. Leung is currently a China-Appointed Attesting Officer appointed by the Ministry of Justice of the PRC.

Mr. Chow Kwok Wai(**周國偉先生**), aged 55, an independent non-executive Director. Mr. Chow is currently a non-executive director of Cinda International Holdings Limited (stock code: 111), a company listed on the Stock Exchange. He served as an executive director of Silver Grant International Holdings Group Limited (stock code: 171) from April 2004 to December 2012 and an independent non-executive director of Youyuan International Holdings Limited (stock code: 2268) ("Youyuan"), a company incorporated in the Cayman Islands with limited liability, from May 2010 to October 2019. Youyuan and its subsidiaries are principally engaged in manufacturing and trading of wrapping tissue paper, wall paper products, copy paper and other products. On 4 October 2019, The Hongkong and Shanghai Banking Corporation Limited filed a winding-up petition against Youyuan in Hong Kong. Joint and several provisional liquidators of Youyuan were appointed on 18 October 2019. Mr. Chow confirmed that he was not involved in the incidents giving rise to Youyuan's winding-up petition and, so far as he is aware, there was no wrongful act on his part leading to the petition. To Mr. Chow's understanding after enquiries, the amount involved under the petition appears to be around HK$2.6 billion. The listing of Youyuan's shares was cancelled with effect from 22 March 2021 under Listing Rule 6.01A. For the avoidance of doubt, Youyuan's winding-up petition and cancellation of listing are not related to SSY Group Limited and its subsidiaries. Mr. Chow has worked in Price Waterhouse, which is now known as PriceWaterhouseCoopers, and has accumulated valuable audit experience there. Mr. Chow has nearly 30 years of experience in accounting, financial management and corporate finance. Mr. Chow received his bachelor degree in Social Sciences from the University of Hong Kong in 1990. Mr. Chow is a Fellow member of the Association of Chartered Certified Accountants and a Fellow CPA of the Hong Kong Institute of Certified Public Accountants. He is also a Chartered Tax Adviser and a Fellow member of the Taxation Institute of Hong Kong.

CORPORATE GOVERNANCE REPORT

The board of directors (the "Board") of SSY Group Limited (the "Company") is pleased to present this corporate governance report for the year ended 31 December 2021 (the "Corporate Governance Report").

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 Board reviews its corporate governance practices from time to time in order to meet the stakeholders' expectations and comply with the latest regulatory requirements, and to fulfill its commitment to a high standard of corporate governance.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all applicable code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2021, except for the deviation from code provision C.2.1 of the CG code as follows:

Under code provision C.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Qu Jiguang has been appointed as the chairman of the Board, who has the principal role of providing the leadership for and effective running of the Board. In view of the present composition of the Board and the in-depth knowledge of Mr. Qu Jiguang in the Company's operations and pharmaceutical industry, 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 Board believes that it is in the best interest of the Company to vest both roles in Mr. Qu Jiguang, which allows 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.

BOARD OF DIRECTORS

As at 31 December 2021, the Board comprises four executive Directors, namely, Mr. Qu Jiguang (Chairman), Mr. Su Xuejun, Mr. Meng Guo and Mr. Chow Hing Yeung, one non-executive Director, namely Mr. Feng Hao and three independent non- executive Directors, namely, Mr. Wang Yibing, Mr. Leung Chong Shun and Mr. Chow Kwok Wai (the "Directors").

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

The Board appointed Mr. Qu Jiguang as the Chairman, who has the principal role of providing the leadership for and effective running of the Board. Other roles and responsibilities of the Chairman include approving the agenda of board meetings, ensuring all Directors are properly briefed on issues arising at board meetings and have received information which is adequate, accurate and complete in a timely manner, ensuring good corporate governance and effective shareholder communication practices and procedures, encouraging all Directors to make full and active contributions to the Board's affairs as well as promoting a culture of openness for contribution by non-executive Directors.

BOARD OF DIRECTORS *(Continued)*

The Board has delegated the day-to-day responsibility for the management of the Group's business to the management. The Board has given clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. As explained above under the heading "CORPORATE GOVERNANCE PRACTICES", Mr. Qu Jiguang, the Chairman of the Board, 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.

In addition, the Board has also delegated various responsibilities to the Nomination Committee, the Remuneration Committee and the Audit Committee of the Company (the "Board Committees"). Further details of the Board Committees, among others, their roles and functions are set out in the later parts of this report. The Company reviews the appropriateness of these delegation arrangements periodically in view of the Company's needs.

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

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

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

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

BOARD OF DIRECTORS *(Continued)*

During the year ended 31 December 2021, a total of five board meetings, one annual general meeting ("AGM") and one extraordinary general meeting ("EGM") were held and the attendance of each Director was in the table below. All the independent non-executive Directors, being the chairmen of the Board Committees, and the non-executive Director have attended the general meetings held during the year.

	Number of meetings attended/ held within Director's service period		
Name of Director	**Board meetings**	**AGM**	**EGM**
Executive Directors			
Mr. Qu Jiguang *(Chairman)*	5/5	1/1	1/1
Mr. Su Xuejun	5/5	0/1	0/1
Mr. Meng Guo *(appointed on 27 August 2021)*	2/2	0/0	0/0
Mr. Chow Hing Yeung *(appointed on 27 August 2021)*	2/2	0/0	0/0
Mr. Wang Xianjun *(resigned on 27 August 2021)*	2/3	1/1	1/1
Non-executive Director			
Mr. Feng Hao	5/5	1/1	1/1
Independent non-executive Directors			
Mr. Wang Yibing	5/5	1/1	1/1
Mr. Leung Chong Shun	5/5	1/1	1/1
Mr. Chow Kwok Wai	5/5	1/1	1/1

During the year, Mr. Qu Jiguang, the Chairman of the Board, held one meeting with all independent non-executive Directors without the presence of other directors.

The Company ensures that all Directors are participating in board proceedings in a meaningful and effective manner. Notice of at least 14 days are served to all Directors of a regular board meeting. For all other board meetings and committee meetings, reasonable notice is generally given. Agendas and accompanying board papers and related materials are normally sent to all Directors at reasonable time before the intended date of meetings to enable them to make informed decisions and perform their duties. All Directors are given the opportunity to contact the Company Secretary to include matters in the agenda for regular board meeting, and have separate and independent access to the senior management of the Company whenever necessary.

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

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

BOARD OF DIRECTORS *(Continued)*

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall be discussed by a physical board meeting rather than a written resolution. Independent non-executive Directors who, and whose close associates, have no material interest in the transaction shall be present at such Board meeting.

NOMINATION, APPOINTMENTS AND RE-ELECTION OF DIRECTORS

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

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

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

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

NOMINATION, APPOINTMENTS AND RE-ELECTION OF DIRECTORS *(Continued)*

During the year ended 31 December 2021, a Nomination Committee meeting and a Board meeting were held in resolving the appointment of Mr. Meng Guo and Mr. Chow Hing Yeung as executive Directors with effect from 27 August 2021. Mr. Meng Guo and Mr. Chow Hing Yeung will be subject to re-election by the shareholders at the forthcoming general meeting.

As at 31 December 2021 and up to date of this Corporate Governance Report, all the independent non-executive Directors have served more than nine years on the Board. The Board is aware of the requirement effective for the financial year commencing on or after 1 January 2023 to appoint a new independent non-executive Directors pursuant to Code Provision B.2.4(b) of the CG Code if all the independent non-executive Directors have served more than nine years on the Board. The Board will take appropriate actions to address the above and/or make relevant disclosures as and when appropriate pursuant to the Listing Rules.

TRAINING FOR DIRECTORS

All Directors have participated in continuous professional development to develop and refresh their knowledge and skills. Each year, the Company provided all Directors materials and directors training seminar for updates on the latest developments regarding corporate governance, the Listing Rules and other applicable regulatory requirements. The Directors also have opportunities to attend other seminars, conferences or briefings, and conduct site visits to the operation base of the Group. For newly appointed directors, a comprehensive induction on appointment and subsequent continuous professional development are arranged to ensure that they properly understand the Group's business and their responsibilities. For the year ended 31 December 2021, all Directors are requested to provide records of training they received to the Company Secretary of the Company (the "Company Secretary"). According to the record maintained by the Company Secretary, the participation by each Director of the Company in the continuous professional development was as follows:

Name of Director	Reading materials	Attending seminars/ conferences/ briefings	Site visits
Executive Directors			
Mr. Qu Jiguang *(Chairman)*	✔	✔	✔
Mr. Su Xuejun	✔	✔	✔
Mr. Meng Guo	✔	✔	✔
Mr. Chow Hing Yeung	✔	✔	—
Non-executive Director			
Mr. Feng Hao	✔	✔	—
Independent non-executive Directors			
Mr. Wang Yibing	✔	✔	—
Mr. Leung Chong Shun	✔	✔	—
Mr. Chow Kwok Wai	✔	✔	—

COMPANY SECRETARY

All directors have access to the advice and services of the Company Secretary who is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. During the year, the Company Secretary had taken no less than 15 hours of relevant professional training requirement, in compliance with Rule 3.29 of the Listing Rules.

BOARD DIVERSITY POLICY

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

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

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

2. the Board comprises executive director, non-executive director and independent non-executive director.

At present, all of the above measurable objectives have been achieved.

As at 31 December 2021 and up to date of this Corporate Governance Report, the Company has a single gender board. The Board is aware of the requirement under Rule 13.92 of the Listing Rules for issuers with a single gender board to appoint a director of a different gender no later than 31 December 2024. The Company will consider and take appropriate actions to address the single gender Board issue including but not limited to revisiting its board diversity policy with measurable objectives. The Company will make relevant disclosures in amongst others, its corporate governance report, as and when appropriate pursuant to the Listing Rules. Such disclosures may include but are not limited to the measures to be taken by the Board to achieve greater gender diversity, proposed targets and timelines and the Company's succession plan as regards gender diversity.

To ascertain the progress made towards achieving the objective of Board diversity, the Nomination Committee reviews the board diversity policy from time to time to ensure its continued effectiveness and its compliance with all applicable rules and regulations, including but not limited to the Listing Rules. The Board reviews the implementation and effectiveness of the board diversity policy, including but limited to ensuring the measurable objectives' appropriateness and considering any new measurable objectives, from time to time with at least once a year.

NOMINATION COMMITTEE

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

The roles and functions of the Nomination Committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board taking into account the Company's board diversity policy, making recommendations on any proposed changes to the Board, identifying candidates and/or making recommendations to the Board on candidates nominated for directorships taking into account the Company's nomination policy as well as reviewing the Company's board diversity policy and nomination policy from time to time to ensure their continued effectiveness and their compliance with all applicable rules and regulations.

NOMINATION COMMITTEE *(Continued)*

Meeting of the Nomination Committee shall be held at least once a year. One meeting was held during the year ended 31 December 2021. Appointment of Mr. Meng Guo and Mr. Chow Hing Yeung as executive Directors was discussed and recommended to the Board, and the Board composition, the Company's board diversity policy and nomination policy were reviewed. The attendance of each member was as follows:

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

REMUNERATION COMMITTEE

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

The principal roles and functions of the Remuneration Committee is the formulation, review and recommendation to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent policy on their remuneration.

Other roles and functions of the Remuneration Committee include consulting the Chairman of the Board about their remuneration proposals for other executive Directors and senior management, reviewing and approving the management's remuneration proposals with reference to the Board's corporate goals and objectives, making recommendations to the Board on the remuneration packages of individual executive Director and senior management (including benefits in kind, pension rights and compensation payments), making recommendations to the Board on the remuneration of non-executive Directors, approving and making recommendations to the Board on the terms of the Directors' service agreements and compensation arrangement relating to termination, dismissal or removal of the Directors, and ensuring that no Director or his/her associates is involved in deciding that Director's own remuneration.

REMUNERATION COMMITTEE *(Continued)*

Meeting of the Remuneration Committee shall be held at least once a year. Two meeting had been held during the year ended 31 December 2021. During the meetings, remuneration paid to the Directors (including the resigned Director and the newly appointed Directors) and the remuneration policy of the Directors and senior management of the Company have been reviewed. The attendance of each member was as follows:

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

The overriding objective of the remuneration policy of executive Directors and senior management is to provide the packages needed to attract, retain and motivate executive Directors and senior management of the quality required to run the Company successfully, without paying more than necessary. 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. Remuneration packages of executive Directors comprise base salary, performance bonus and fringe benefits including the provident fund, medical insurance and other miscellaneous benefits. All the Directors are entitled to participate in the Share Option Scheme. The emolument payable to Directors depends on their respective contractual terms under the service contract with the Company, and as recommended by the Remuneration Committee. Details of the remuneration of the Directors, individuals with highest emoluments in senior management by band and other remuneration related matters are set out in note 8 and note 9 to the financial statement respectively.

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

AUDIT COMMITTEE

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

The principal roles and functions of the Audit Committee are to provide the Board an independent oversight of the financial reporting, internal control and risk management systems of the Group and to maintain an appropriate relationship of the Company's external auditors.

AUDIT COMMITTEE *(Continued)*

Other roles and functions of the Audit Committee include reviewing the Group's financial information, financial controls as well as the internal control and risk management systems, making recommendations to the Board on the appointment, reappointment and removal of the external auditor, reviewing and monitor the external audit and internal control review processes, and developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board.

According to its terms of reference, meetings of the Audit Committee shall be held at least twice a year. Two meetings had been held during the year ended 31 December 2021. The attendance of each member was as follows:

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

During the above meetings and throughout the year ended 31 December 2021 in performing its duties, the work performed by the Audit Committee included:

(a) reviewed, among other things, the report by the internal control consultant and the financial statements, significant accounting policies and judgements of the Group contained in the Annual Report and the Interim Report with liaison with the Company's senior management and/or the external auditor before submission to the Board;

(b) met with the external auditor to discuss the audit approach and audit findings twice a year; and

(c) reviewed the external auditor's independence and effectiveness of its audit service, and recommended to the Board, for the approval by shareholders, of the re-appointment of the external auditor and approval of its remuneration.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities (as set out in page 63 of this Annual Report under the section headed "Independent Auditor's Report") for overseeing the preparation of the financial statements of the Group that give a true and fair view of the state of affairs of the Group and of the financial results and cash flows for that reporting period. The management provides to the Board monthly updates of the Group's financial position and any other supplementary information giving a balanced and understandable assessment of the Group's performance, position and prospects so as to enable the Board to discharge its duties. The management also provides to the Board sufficient explanation and information so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by the auditor about their reporting responsibilities is included in the Independent Auditor's Report.

AUDITOR'S REMUNERATION

The fees paid and payable to the Company's auditor, KPMG, in respect of audit services and non-audit services for the year ended 31 December 2021 amounted to approximately HK$2,870,000 and HK$nil respectively.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for overseeing the risk management and internal control systems of the Group. The systems include a defined management structure with limits of authority, and are designed to enable the Board to identify, evaluate and manage significant risks (including ESG risks) so as to manage rather than eliminate the risk of failure to achieve its business objectives, provide reasonable but not absolute assurance against material misstatement or loss, safeguard its assets and shareholders' interests, and ensure compliance with applicable laws and regulations. The Group has established policies which set out internal control procedures in respect of inside information (as set out below under the heading "HANDLING OF INSIDE INFORMATION"), connected transactions/continuing connected transactions and other key risk areas. Detailed policies and/or procedures in individual departments and functions are established for, including but limited to budgeting, information reporting, performance monitoring, whistleblowing by employees and stakeholders as well as anti-corruption and fraud prevention, so as to implement the Group's risk and internal control systems and achieve their objectives.

The Board conducts annual review of the effectiveness of the risk management and internal control systems of the Company and its subsidiaries and, in particular, ensures the adequacy of financial and human resources in performance and reporting of the Company's accounting, financial and ESG functions. Having assessed the current situation of the Group including the changes in its operation size, business nature, industry environment and other significant risks (including ESG risks) since last annual review, and resources required for setting up in-house internal audit, the Board considered so far the engagement of Morison Heng CPA Limited, an external professional firm as internal control consultant is in the best interests of the Company. A risk management plan is set up by the internal control consultant. The significant risks of the Group are then identified, assessed and documented, which are taken into consideration by the internal control consultant in the design of internal control system review. The review covers all material controls of the Group, including financial, operational and compliance controls. Results of the review are reported to the Audit Committee for making recommendation to the Board on the effectiveness of the risk management and internal control systems. Suggestions proposed in the review are also considered by the Board for improving the Company's internal control measures and resolve material internal control defects, if any.

For the year ended 31 December 2021, a review on the effectiveness of the risk management and internal control systems of the Company has been conducted by the Board. Based on the information provided by the internal control consultant and its own observations and assessments, the Board concluded that the risk management and internal control systems are effective and adequate.

HANDLING OF INSIDE INFORMATION

The Group has established policy and procedures on handling and dissemination of inside information which sets out guidelines to the directors, officers and all relevant employees of the Group to ensure inside information of the Company is to be disseminated to the public in equal and timely manner in accordance with the Securities and Futures Ordinance, the Listing Rule and all other applicable laws and regulations. The Company has established written guidelines to the directors, officers and all relevant employees of the Company and its subsidiaries on assessing whether material information that comes to their knowledge is inside information and escalating such information for the attention of the Board promptly. The Company discloses information and publish announcements in compliance with the Listing Rules and other relevant laws and regulations. The primary focus of the Company is to ensure information disclosure is timely, accurate and complete.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry by the Company, all Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2021.

The Company has also established written guidelines to the directors, officers and all relevant employees of the Company and its subsidiaries on securities transactions by those who may possess or have access to inside Information of the Company.

SHAREHOLDERS' RIGHTS

(1) Procedures for shareholders to convene an EGM

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

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

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

— At least 14 clear days' notice in writing if the proposal constitutes an ordinary resolution of the Company;

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

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

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

Shareholders are welcomed to make enquires and suggestions to the Board in the general meeting. Shareholders who wish to put forward a proposal, including nomination of directors, should convene an EGM by submitting a written requisition to move a resolution at EGM. The requirements and procedures are set out in "(1) Procedures for shareholders to convene an EGM" above.

SHAREHOLDERS' RIGHTS *(Continued)*

(3) Procedures for sending shareholders' enquiries to the Board

Shareholders may send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

Mailing address:	Rooms 4902-03, 49th Floor Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
E-mail:	henrychow@ssygroup.com.hk
Fax:	(852) 2787 3338

Shareholders may also direct their questions about their shareholdings to Computershare Hong Kong Investor Services Limited, the Company's Hong Kong branch share registrar.

DIVIDEND POLICY

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

COMMUNICATIONS WITH INVESTORS

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

The Company has established a mechanism of using a number of channels for communications with its shareholders, investors and other stakeholders to ensure independent views and input are available to the Board. These include the AGM and the general meetings, annual and interim reports and quarterly statements, announcements, circulars to shareholders, press releases, investors meetings and the Company's website www.ssygroup.com.hk. The Board reviews the implementation and effectiveness of such mechanism from time to time with at least once a year.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2021, there was no change in the Company's constitutional documents.

The Board resolved on 29 March 2022 to seek approval of the shareholders of the Company at the forthcoming annual general meeting scheduled to be convened and held on 23 May 2022 (the "forthcoming AGM") to adopt a new amended and restated articles of association of the Company (the "New Articles of Association") in order to (i) bring the existing amended and restated articles of association of the Company (the "Existing Articles of Association") in line with relevant requirements of the Listing Rules (in particular the core standards set out in Appendix 3 thereto) and the laws of the Cayman Islands; and (ii) make other consequential and housekeeping amendments to the Existing Articles of Association. The existing memorandum of association of the Company remains unchanged. The proposed adoption of the New Articles of Association is subject to the approval of the shareholders of the Company by way of a special resolution at the forthcoming AGM. Please refer to the Company's announcement dated 29 March 2022 for the full particulars of the proposed amendments to the Existing Articles of Association.

INTRODUCTION

As a pharmaceutical enterprise, the Group understands the importance of environmental sustainability and green manufacturing and is committed to generating a positive impact on the society and the environment. The investors and stakeholders are placing more emphasis on the performance of the environmental, social and governance (the "ESG") aspect. In addition to achieving our business objectives, we recognize our responsibility to operate in a more responsible and sustainable manner by integrating ESG considerations into our day-to-day operations.

Combining its own experience, the Group adopts the principles and the basis of "Environmental, Social and Governance Reporting Guide" as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the standard of the Group, with the objective of establishing a sound environmental, social and governance structure. By evaluating the ESG-related risks and reporting performance, the Group sets the overall strategic goals, supervises management effectiveness, and ensures compliance with the relevant legal and regulatory requirements. This ESG report (the "Report") sets out the Group's strategies and practices in two aspects, namely environmental and social, to enhance the comprehensive and in-depth understanding by the shareholders, the investors and the public towards the Company's governance and culture through this report.

REPORTING SCOPE

The Report provides an overview of the Group's sustainability performance by summarising the policies, management approach and performance of the Group's core and material businesses (i.e. the research, development, manufacturing and selling of a wide range of pharmaceutical products to hospitals and distributors) in respect of corporate social responsibility. 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 Report is prepared in accordance with the reporting principles of 'Materiality', 'Quantitative', 'Balance' and 'Consistency'. Taking into account the principle of materiality, the Report has been dedicated in gathering the relevant data on environmental, social and governance for three major subsidiaries, namely Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No. 4 Pharma"), Jiangsu Best New Medical Material Co., Ltd. ("Jiangsu Best") and Hebei Guangxiang Pharmaceutical Co., Ltd. ("Hebei Guangxiang"), and disclosed the policies on ESG of the Group in China. The Report was reviewed and approved by the board of directors (the "Board") of SSY Group Limited ("the Company") on 29 March 2022.

REPORTING PERIOD

The Report illustrates and highlights the environmental and social performance of the Group in China for the reporting period from 1 January 2021 to 31 December 2021 (the "Reporting Period").

REPORTING FRAMEWORK

The Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Guide") contained in Appendix 27 to the Listing Rules.

STATEMENT OF THE BOARD

The Board assumes full responsibility for and ensures the effectiveness of the ESG strategy and reporting of the Company, and the Group operates its core and material businesses in a sustainable manner.

The Board takes overall responsibilities for the ESG performance and reporting. The Board assesses the materiality of effects of the respective ESG issues on the businesses and stakeholders of the Company through regular review of the Company's operation by the business and function departments of the Company, and reports to the management and the Board from time to time.

In order to improve the awareness and capability of the members of the Board in relation to ESG management, the Company arranged related knowledge trainings for the Board, with an aim to learn the latest regulatory requirements and initiatives and work together to explore the direction to enhance their skills. Meanwhile, the members of the Board participated in the materiality assessment of the ESG issues and prioritised such issues from the perspective of risks imposed on the businesses of the Company. By combining such assessment results and the opinions of the stakeholders, the Company identified the most significant ESG issues.

STATEMENT OF THE BOARD *(Continued)*

The Board is committed to improving the setting and tracking mechanism of ESG objectives, so as to promote the continuous enhancement of the Company's ESG standards. The Company's finance, compliance and investor relation department is responsible for researching and formulating ESG objectives related to the operations of the Company after consolidating the feedbacks of the Group's business and functional departments, and subsequently for reviewing and monitoring the progress of the ESG objectives and preparing the Report for the Board's review.

FEEDBACK MECHANISM

Advice and suggestions from the stakeholders help to establish and enhance the sustainability strategy of the Group in the future. Stakeholders are welcome to contact the personnel in charge of the preparation of this Report by sending email to ronaldchak@ssygroup.com.hk.

STAKEHOLDERS' ENGAGEMENT AND MATERIALITY

The Group believes that we need to prioritise our environmental protection and social responsibilities and continue to come up with approach to improve our environment management system. Based on our experiences and communications with internal and external organisations, the Group consolidated seven different groups of stakeholders that are relevant to our business. These include our management, general staff, community and the public, shareholders and investors, suppliers and business partners, customers, and the government and regulators. To foster collaborative relationship with its stakeholders, the Group proactively promoted communication with the stakeholders through various channels to exchange thoughts and ideas during the Reporting Period. The engagement from the stakeholders enables the Group to ensure the alignment between the strategies for business and sustainable development and the stakeholders' views and expectations. The following stakeholder engagement activities were conducted during the Reporting Period.

STAKEHOLDER GROUP ENGAGED		ENGAGEMENT METHODS
Internal Stakeholders	Management	— Regular meetings
	General Staff	— Regular meetings — Trainings and workshops — Annual appraisal meetings — Company magazine and intranet
External Stakeholders	Community and the Public	— Joint community activities
	Shareholders and Investors	— General meetings — Investor information sessions — Site visits — Regular information disclosure of the listed company — Investor visits and meetings — Telephone and email enquiries
	Suppliers and Business Partners	— Tender meetings — Supplier management procedure — Supplier appraisal and assessment

STAKEHOLDERS' ENGAGEMENT AND MATERIALITY *(Continued)*

STAKEHOLDER GROUP ENGAGED		ENGAGEMENT METHODS
External Stakeholders	Customers	— Customer opinion surveys — Customer communication meetings — Day-to-day communication with frontline staff — Customer feedback mechanism
	The Government and Regulators	— On-site inspection and work reports preparation, submission and approval — Conversations with regulatory authorities — Regular communication with local environmental departments — Consultation and information disclosure

MATERIALITY ANALYSIS

Through the stakeholder engagement exercise, management reviews and industry analysis, and in light of the significance of the Group-related ESG issues to the stakeholders and the Group, the Group identified the most material ESG issues and prioritised its resources in managing these issues. This assessment helps to ensure that the Group's business goals and development direction are in line with the stakeholders' expectations and requirements. The issues that are considered most material by the Group are indicated in the following table, and they have been included in the below disclosures in this report.

Materiality Ranking	ESG Issues
1	Emissions
2	Supply management in operating and production aspect
3	Anti-bribery
4	Labour regulation in employment and labour aspect

ENVIRONMENTAL CATEGORY

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

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

ENVIRONMENTAL CATEGORY *(Continued)*

Emissions aspect

The Companies devoted great effort in pollution prevention and control, protection of ecological system in strict compliance of each GMP standard and the relevant laws and regulations in the PRC, in an effort to strengthen the management ability in environment. The Companies had various pollution prevention and control facilities to comply with applicable standards of main sewage outlet, applicable standards of air exhaust vents and emission permitted by the emission license. The Companies adopted new techniques, new technologies and new products of zero or minimal pollution to meet emission targets; for sewage, the sewage treatment plant has met the operation standard; for solid wastes, sorting and separation were conducted to implement full process supervision and management of hazardous waste, covering from its generation to treatment. In 2017, the Companies was the first batch of companies recognised in the Green Manufacturing Demonstration List by the Ministry of Industry and Information Technology. During 2021, the Group has not breached the above laws and regulations in relation to emission.

Types of emissions

	2021	2020
Air emissions		
Sulfur oxides (SOx) (kg)	**2**	4
Nitrogen oxides (NOx) (kg)	**22,236**	13,018
Suspended particles (PM) (kg)	**55**	161
Greenhouse gases emissions *(note 1)*		
Direct emissions (ton)	**31,766**	20,053
Indirect emissions (ton)	**190,095**	159,206
Total greenhouse gases emissions (ton)	**221,861**	179,259
Greenhouse gases emissions intensity (ton/million pieces of product)	**12,850**	16,814
Wastewater emissions (ton)	**794,985**	752,464
Biochemical oxygen demand (BOD_5) (ton)	**16**	40
Hazardous waste (ton) *(note 2)*	**75**	7
Non-hazardous waste (ton)	**1,695**	2,227

Note 1: Greenhouse gases emissions data are presented in terms of tCO_2 equivalent.
Note 2: In 2021, among which there are about 17 tons of sludge containing rubber, which is sold to renewable energy companies for recycling.

The Companies use various machines and equipment to treat different pollutions, including:

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

The station mainly handles exhaust gas and is equipped with four sets of treatment facilities, among which, the "bag filter + 25m high exhaust gas pipe" is mainly used for filtering workshop dust, the "alkali wash + multi-media catalytic oxidation absorption tower + 25m high exhaust pipe" is used to remove the odour generated in the workshops, and the "bio-filter + 15m high exhaust pipe" is used to remove the odour generated in the tanks.

The Companies' bulk pharmaceutical production base in Cangzhou has applied advanced synthesis, reduction, separation as well as extraction artifices and new devices. Through adopting new equipment and new technology, optimising production processes and recycling the wastes or by-products produced from other projects in the park as raw materials, the reduction, reuse and maximisation of resources are achieved, and a cyclic economic and industrial chain is established. During the year, the production base built a new sewage treatment station which applied advanced treatment process of low-temperature wet oxidation to ensure its emissions reaching the required standards, so as to improve sewage treatment capability. It also implemented upgrading of and technology improvement on its existing exhaust treatment facilities, and built two new catalytic combustion systems to handle the treatment of exhaust generated from workshop process. In addition, it built new activated carbon adsorption and recycling device which will separately collect exhaust contained methylene chloride generated by the workshops and recover the methylene chloride contained in the exhaust through the adsorption and desorption process.

ENVIRONMENTAL CATEGORY *(Continued)*

Resources and energy aspect

Taking the management approach of "conserving energy to increase efficiency, reducing consumption to increase production, reducing emission to improve environment and implementing green practices to develop pharmaceutical" in energy, the Companies conscientiously implemented its energy management system to enhance its quality of overall management and awareness on environmental protection, as well as to minimize operational risk.

Types of resources and energy consumption

	2021	2020
Water (ton)	**1,016,311**	958,042
Electricity (thousand kWh)	**186,322**	156,021
Steam (million kJ) *(Note)*	**721,835**	809,852
Natural gas *(Note)* (million kJ)	**473,152**	242,625
Total amount of packaging materials used on finished products (ton)	**76,566**	78,458

Note: During winter heating period, the Companies reduced the use of steam and replaced it by natural gas.

In line with the committed pursuit for a "high growth, low consumption" economic growth model, the Companies aggressively started resources regeneration and circular economy projects to conserve energy and reduce consumption by recycling all steam condensate. The Companies have also completed the establishment of "energy management system", on the basis of the "four mechanisms" of energy conservation management, namely "planning, implementation, inspection and improvement", optimised the development of the energy conservation and emission reduction management system, implemented continuous enhancement of energy conservation work, realised continuous enhancement of energy conservation management and continuous improvement of the efficiency levels, thereby ensuring the full completion of energy conservation and emission reduction objectives.

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

Steam consumption has been effectively reduced after the Company's application of hot-press distilled water machine as the replacement for domestic multi-effect distilled water machine. The Companies promote energy conservation and purchased tens of thousands of sets of energy-efficient LED green lighting to replace the traditional fluorescent lamps, energy-saving lamps and incandescent lamps, and has conserved energy. Canteen is equipped with a solar hot water station, which uses low-carbon and clean new energy for cooking, washing and staff to wash their hands.

ENVIRONMENTAL CATEGORY *(Continued)*

Resources and energy aspect *(Continued)*

To improve water utilisation, the Companies not only use water-saving appliances and equipment, but also develops its water-saving potential. Steam is recycled through condensation and reused as the heat source for preheating raw water in the production of injection water. The condensed water is reused in the circulating pool, greatly reduces the freshwater needed for supplementing the circulating pool. Strengthen water-saving technological transformation: A concentrated water recycling device was installed in the water generation system. Large infusion bottles are now washed with clean air instead of water, which have considerably reduced water consumption. Optimise equipment combination to reduce water consumption: changing the traditional way of isolated, small-batch production by production lines, the Companies have concentrated multiple production lines for production in much larger quantities. The Companies have established four sets of water circulation systems for sterilisation, cold water, cooling water and air compressor cooling, which are capable of recycling circulating water, greatly reducing one-off water consumption.

The Companies use various energy-saving machines and equipment, including:

- Modification of existing machines: Modifying screw air compressor into centrifugal air compressors, the air to electricity ratio of air compressor is greatly reduced, massively conserving electric energy. Modifying cold dryers into desiccant dryers, reducing air loss, thus increasing the production of compressed air and conserving electric energy.
- Bottle blowing equipment: Appropriate allocation of production lines by the Companies enhance production and delivery ability, thus increases the daily production of each unit and lowers energy consumption of products.
- Large hot-pressed injected water machine: The hot-pressed injected water machine has undergone multiple heat exchange internally comparing to traditional multi-functioned water machine, achieving optimised energy usage. At the same time, rational production of water output and water storage is achieved through variable frequency control, saving steam by approximately 60%.
- Offline punching machine: Solving the waste issue of leftover materials in production, massively increases the production ability of liquid injections products.

Environment and natural resources aspect

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

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

ENVIRONMENTAL CATEGORY *(Continued)*

Environment and natural resources aspect *(Continued)*

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

In terms of dealing with the impact of climate change, the factory in Hebei province has adopted some risk assessment and management and control plans in face of low-temperature freeze to mitigate the effect on the supply chain of the factory production as well as procurement and sale. The Companies have drawn up specific measures to protect all workshops and warehouses against cold and freezing conditions, including measures such as electric heat tracing, steam tracing and insulation, so as to reduce the impact of low-temperature environment on facilities and pipelines.

SOCIAL CATEGORY

Employment and labour aspect

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

SOCIAL CATEGORY *(Continued)*

Employment and labour aspect *(Continued)*

Total workforce

		31 December 2021	31 December 2020
Total		**4,772**	4,684
By gender	Male	**2,686**	2,636
	Female	**2,086**	2,048
By age	18-30	**2,056**	2,438
	31-50	**2,389**	2,005
	Over 50	**327**	241
By education level	Doctorate	**9**	7
	Post graduate	**126**	135
	Bachelor	**866**	823
	Tertiary	**1,540**	1,546
	Technical secondary school and below high school	**2,231**	2,173

SOCIAL CATEGORY *(Continued)*

Employment and labour aspect *(Continued)*

Employee turnover rate

		2021		2020	
		Number of employees	**%**	Number of employees	%
Total		**1,025**	**21.5%**	923	19.7%
By gender	Male	**622**	**23.2%**	556	21.1%
	Female	**403**	**19.3%**	367	17.9%
By age	18-30	**659**	**32.1%**	617	25.3%
	31-50	**331**	**13.9%**	272	13.6%
	Over 50	**35**	**10.7%**	34	14.1%

The Group's companies in the PRC strictly complied with the relevant laws and regulations such as the Labour Law and the Labour Contract Law of the PRC, and timely optimised the management system of employment relationships pursuant to the changes and amendments of national policies and regulations. The Companies strictly followed the relevant laws and regulations, such as the Contract Law and the Labour Contract Law in the signing, renewal, cancellation and termination of employment contracts with employees; deployed labour in accordance with procedures to reduce disputes and controversies related to employment contracts, and maintain the mutual interest of the parties to employment contracts. The Companies also set up rigorous recruitment systems and procedures to prevent child and forced labour. If any violations are found, the Companies will conduct an in-depth investigation into the causes and make decisions on the penalties to be imposed on the employees for wrongdoing and amend the management system to avoid violations in the future.

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

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

The Companies pay great attention to employee development. With the aim to enhance the individual capability of, and provide better development opportunities for its employees, the Group invests substantial amount of financial and human resources in the trainings for staff every year. During the Reporting Period, the Companies arranged a total of 36,488 training hours for new employees.

SOCIAL CATEGORY *(Continued)*

Employment and labour aspect *(Continued)*

Employee turnover rate *(Continued)*

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

Percentage of employees trained

		2021	2020
By gender	Male	**98.3%**	98.2%
	Female	**97.9%**	97.8%
By category	Management	**91.7%**	90.0%
	Executive	**95.9%**	96.2%
	Non-Executive	**98.3%**	98.2%

Average number of training hours per employee

		2021	2020
By gender	Male	**63.1 hours**	62.8 hours
	Female	**67.5 hours**	73.8 hours
By category	Management	**19.1 hours**	26.7 hours
	Executive	**43.4 hours**	55.3 hours
	Non-Executive	**66.5 hours**	68.6 hours

The Companies pay great attention to the occupational health of its employees. It provides good working and production environment to employees, as well as regular body check and occupational health check for employees who have direct or indirect contact with the production process. In 2021, according to the current laws and regulations on occupational health, the department of safety set up effective facilities like dust collector, air extractor and sound insulation screen in the production line where there may be dust, odour or noise. To ensure the occupational health of employees, personal protective devices, such as earplugs, earmuffs, safety goggles, respiratory protective equipment with dust-proof and other functions and protective clothing, are also equipped in accordance with requirements to minimize potential adverse effects on the employees' health due to the hazardous factors in the production and operation sites. For those who are in positions with occupational hazard risk (those directly or indirectly exposed to statutory occupational disease hazards), it will regularly conduct physical examination of occupational health by occupational disease prevention and control agencies to ensure the health of the employees. Occupational health files have also been established for each employee who has received the occupational health check-up. The Companies also strengthened our occupational health and safety management system and occupational health records. Meanwhile, regular occupational health trainings were conducted in accordance with the occupational health training program. Employees' awareness of their own health protection has been further strengthened.

SOCIAL CATEGORY *(Continued)*

Employment and labour aspect *(Continued)*

Occupational health and safety data

	2021	2020	2019
Work-related fatalities	**0**	0	0
Rate of work-related fatalities (by number of employees)	**N/A**	N/A	N/A
Lost days due to work-related injury	**1,025**	1,890	806

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

During year 2021, the Group has not breached the laws and regulations regarding employee recruitment, labour standards or health and safety.

Operating and production aspect

The Group understands that a good relationship with its suppliers is crucial to the fulfilment of its short-term and long-term goals. The Group has been working continuously with its suppliers with the objectives of improving the quality of raw materials, and delivering high quality products to its customers. To reinforce the quality control of central tender for material procurement, the Group's companies in the PRC have implemented the "management system of tenders for material procurement" and "evaluation and management system of suppliers' quality" to specify the approval of suppliers for material procurement and the staff duties of each segment. In addition, by specifying the procedures such as the filing of material suppliers' quality, quality standard, on-site audit, quality assessment, inspections and trials as well as the handling of quality problems, the identification and management of major raw materials and the environmental or social risk caused by suppliers have been stepped up, and environmentally friendly materials and suppliers would be adopted, which has in turn strengthened the quality management of material supply. During the year 2021, the Group corporated with about 1,400 suppliers, of which 99% were from China and the others were mainly from Japan and Korea.

The Companies have policies and systems in place to protect the intellectual properties that have been acquired for research, development and production. The Companies performed internal review at all levels regularly in accordance with the requirements of GMP to promptly identify problems throughout the actual production process and formulate practicable rectification and prevention measures. The Companies have set up quality service department which was responsible for handling enquiries and follow up regarding customer feedbacks on quality, providing after-sales service on quality at all stages from pharmaceutical production, distribution to clinical usage. The department has set up a comprehensive after-sales service system and product-tracking system, including quality information feedback, assistance on recall of pharmaceutical products, quality tracking on substandard products and supervision of adverse reaction on pharmaceutical products. It has also developed a corresponding management system and standardised operation procedures in order to respond to different kinds of complaints on the market and customer enquiries on quality information in a timely manner. For any updates relating to product quality or legislation, the Companies will arrange staff training to ensure production and operation are in accordance with the new regulations as well as to provide customers with accurate information. During 2021, the Group had no sold or shipped products that had to be recalled for safety and health reasons.

SOCIAL CATEGORY *(Continued)*

Operating and production aspect *(Continued)*

The Companies implemented measures on protection of customers' data and privacy and carried out supervision. The Companies also proactively participated in the inventory management of its customers to avoid return or replacement of goods due to overstock or sluggish inventory. For expired pharmaceutical products, the Companies sought for a solution through active negotiation; as to inventory of expired pharmaceutical products, it strictly followed the "Substandard Pharmaceutical Products Management System" to determine, report and destroy the substandard pharmaceutical products. During year 2021, the Group has not breached the above laws and regulations regarding product responsibility.

Anti-corruption aspect

The Companies strictly complied with the relevant national laws and regulations regarding anti-corruption such as the "Anti-Corruption and Bribery Law of the PRC" and the "Anti-Unfair Competition Law of the PRC". All unfair competition behaviours such as commercial bribery were prohibited in the sales and procurement processes, whereas employees at all levels (including directors) were under strict supervision, management and training. The Companies were dedicated to maintaining a sound competition environment and order in the pharmaceutical distribution industry through fair competition with its counterparts in the industry. Directors of SSY Group Limited also received anti-corruption information prepared by the directors' training and the Hong Kong's Independent Commission Against Corruption from time to time. During year 2021, the Group has not breached the above laws and regulations regarding anti-corruption.

Community aspect

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

During the year, the Companies donated RMB2.2 million (2020: RMB1.8 million) to social charitable foundation for projects related to education and construction for healthcare, benefiting various organizations including the Red Cross Society of China, Shenyang Pharmaceutical University Education Foundation（沈陽藥科大學教育基金會）, the Hantai District Charity Association and other public welfare foundations. During year 2021, the Companies still actively distributed epidemic prevention materials after the mitigation of novel coronavirus pneumonia epidemic, and donated RMB330,000 (2020: RMB2.6 million) worth of epidemic prevention drugs and disinfection materials to the Red Cross Society of Hebei Province, including Abidol Hydrochloride Capsules as well as Compound Quaternary Ammonium Salt Disinfectant.

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

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

APPENDIX: ESG REPORTING CONTENT INDEX

Subject Areas and Aspects	General Disclosure and KPIs	Chapter in the Report
Environmental		
A1 Emissions	General Disclosure	Emissions aspect
	KPI A1.1	Types of emissions
	KPI A1.2	Types of emissions
	KPI A1.3	Types of emissions
	KPI A1.4	Types of emissions
	KPI A1.5	Types of emissions, Environmental Category
	KPI A1.6	Emissions aspect, Environmental Category
A2 Use of Resources	General Disclosure	Resources and energy aspect
	KPI A2.1	Types of resources and energy consumption
	KPI A2.2	Types of resources and energy consumption
	KPI A2.3	Resources and energy aspect
	KPI A2.4	Resources and energy aspect, Environmental Category
	KPI A2.5	Types of resources and energy consumption
A3 Environment and Natural Resources	General Disclosure	Resources and energy aspect
	KPI A3.1	Resources and energy aspect
A4 Climate Change	General Disclosure	Resources and energy aspect
	KPI A4.1	Resources and energy aspect

APPENDIX: ESG REPORTING CONTENT INDEX *(Continued)*

Subject Areas and Aspects	General Disclosure and KPIs	Chapter in the Report
Social		
B1 Employment	General Disclosure	Employment and labour aspect
	KPI B1.1	Total workforce
	KPI B1.2	Employee turnover rate
B2 Health and Safety	General Disclosure	Employment and labour aspect
	KPI B2.1	Occupational health and safety data
	KPI B2.2	Occupational health and safety data
	KPI B2.3	Employment and labour aspect
B3 Development and Training	General Disclosure	Employment and labour aspect
	KPI B3.1	Percentage of Employees trained
	KPI B3.2	Average number of training hours per employee
B4 Labour Standards	General Disclosure	Employment and labour aspect
	KPI B4.1	Employment and labour aspect
	KPI B4.2	Employment and labour aspect
B5 Supply Chain Management	General Disclosure	Operating and production aspect
	KPI B5.1	Operating and production aspect
	KPI B5.2	Operating and production aspect
	KPI B5.3	Operating and production aspect
	KPI B5.4	Operating and production aspect

APPENDIX: ESG REPORTING CONTENT INDEX *(Continued)*

Subject Areas and Aspects	General Disclosure and KPIs	Chapter in the Report
B6 Product Responsibility	General Disclosure	Operating and production aspect
	KPI B6.1	Operating and production aspect
	KPI B6.2	Operating and production aspect
	KPI B6.3	Operating and production aspect
	KPI B6.4	Operating and production aspect
	KPI B6.5	Operating and production aspect
B7 Anti-corruption	General Disclosure	Anti-corruption aspect
	KPI B7.1	Anti-corruption aspect
	KPI B7.2	Anti-corruption aspect
	KPI B7.3	Anti-corruption aspect
B8 Community Investment	General Disclosure	Community aspect
	KPI B8.1	Community aspect
	KPI B8.2	Community aspect

REPORT OF THE DIRECTORS

The Board of Directors (the "Board") of SSY Group Limited (the "Company") present their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Discussions and reviews of the Group's business are contained in the Management Discussion and Analysis as set out on pages 12 to 18. These discussions form part of this Report of the Directors.

SEGMENT INFORMATION

An analysis of the Group's revenue and results by business segments for the year ended 31 December 2021 is set out in note 4 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on pages 66 to 67.

DIVIDENDS

For the year ended 31 December 2021, an interim dividend of HK$0.05 per share was declared on 27 August 2021 and paid on 24 September 2021 (2020: HK$0.05 per share). The Board recommended a final dividend of HK$0.07 per share (2020: HK$0.05 per share) which, together with the interim dividend, will result in total dividends of HK$0.12 per share for the year ended 31 December 2021 (2020: HK$0.10 per share). The payment of the final dividend is subject to the approval in the forthcoming annual general meeting.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 152.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in the consolidated statement of changes in equity and in note 26(c) to the financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 26(a) to the financial statements respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2021, the Company had distributable reserves of approximately HK$280,402,000 (2020: HK$320,224,000) calculated in accordance with the Companies Law of the Cayman Islands. This includes the Company's share premium account of approximately HK$113,103,000 (2020: HK$299,776,000) which is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Board considers that purchase of its shares by the Company under suitable market condition and funding arrangement will enhance net asset value and/or earnings per share of the Company, and thus will benefit the Company and the shareholders as a whole. Save for the purchase of 47,038,000 shares which details are set out in the next paragraph, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities for the year ended 31 December 2021.

During the year ended 31 December 2021, the Company acquired an aggregate of 47,038,000 ordinary shares through purchases on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of HK$187,614,000 which details are set out below. As at 31 December 2021, all of the 47,038,000 shares have been 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$)*
13 January 2021	1,972,000	4.12	4.03	8,056,000
14 January 2021	2,710,000	4.26	4.03	11,365,000
15 January 2021	1,450,000	4.34	4.30	6,291,000
18 January 2021	3,510,000	4.37	4.26	15,338,000
19 January 2021	486,000	4.44	4.41	2,163,000
20 January 2021	2,166,000	4.51	4.50	9,794,000
22 January 2021	1,236,000	4.68	4.62	5,770,000
25 January 2021	2,616,000	4.70	4.33	11,665,000
26 January 2021	508,000	4.29	4.28	2,183,000
10 May 2021	350,000	4.78	4.78	1,679,000
11 May 2021	222,000	4.85	4.85	1,081,000
13 May 2021	400,000	5.00	4.99	2,005,000
15 September 2021	1,500,000	4.43	4.37	6,634,000
20 September 2021	700,000	4.28	4.24	2,998,000
24 September 2021	930,000	4.11	4.04	3,799,000
4 October 2021	800,000	3.89	3.84	3,103,000
12 October 2021	2,550,000	3.95	3.87	10,024,000
21 October 2021	2,500,000	4.01	3.92	9,910,000
28 October 2021	2,502,000	3.70	3.63	9,183,000
1 November 2021	1,600,000	3.68	3.65	5,870,000
2 November 2021	1,400,000	3.62	3.56	5,052,000
3 November 2021	1,550,000	3.61	3.57	5,584,000
4 November 2021	1,250,000	3.60	3.57	4,495,000
5 November 2021	2,800,000	3.60	3.51	9,948,000
15 November 2021	1,300,000	3.73	3.67	4,823,000
26 November 2021	2,900,000	3.73	3.69	10,819,000
10 December 2021	2,000,000	3.55	3.48	7,067,000
14 December 2021	2,130,000	3.44	3.38	7,304,000
17 December 2021	1,000,000	3.61	3.58	3,611,000
	47,038,000			187,614,000

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 granted on 19 October 2015 have been exercised.

SHARE OPTION SCHEME *(Continued)*

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

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

On 12 January 2021 (the "Date of Grant"), the Company granted 100,000,000 share options to certain management staff of the Group who were not the Directors of the Company at the Date of Grant under Share Option Scheme, representing approximately 3.285% of the issued share capital as at the date immediately before share options were granted. The exercise price was HK$4.218. The exercisable period was from 12 January 2021 to 11 January 2026. Subsequent to the Date of Grant, two grantees namely Mr. Meng Guo and Mr. Chow Hing Yeung were appointed as executive directors of the Company on 27 August 2021. During the year ended 31 December 2021 and up to date of this Annual Report, all of the 100,000,000 share options remain outstanding and exercisable.

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

	2021	2020
Outstanding at the beginning of the year	—	32,000,000
Granted during the year	**100,000,000**	—
Exercised during the year	—	(32,000,000)
Lapsed during the year	—	—
Outstanding and exercisable at the end of the year	**100,000,000**	—

SHARE OPTION SCHEME *(Continued)*

The details of share options movements during the year ended 31 December 2021 are shown as follows:

Directors of the Company

Name of Director	Date of grant	Exercise price per share	Exercisable period	Number of share options: Outstanding at 1 Jan 2021	Granted during the year	Exercised during the year	Outstanding at 31 Dec 2021
Mr. Meng Guo	12 Jan 2021	HK$4.218	12 Jan 2021 – 11 Jan 2026	–	20,000,000	–	20,000,000
Mr. Chow Hing Yeung	12 Jan 2021	HK$4.218	12 Jan 2021 – 11 Jan 2026	–	2,000,000	–	2,000,000

Employees (not directors of the Company)

Date of grant	Exercise price per share	Exercisable period	Number of share options: Outstanding at 1 Jan 2021	Granted during the year	Exercised during the year	Outstanding at 31 Dec 2021
12 Jan 2021	HK$4.218	12 Jan 2021 – 11 Jan 2026	–	78,000,000	–	78,000,000

As at 31 December 2021, the share options granted under Share Option Scheme and remained outstanding had an weighted average exercise price of HK$4.218 and a remaining contractual life of approximately 4.03 years. Assuming that all share options outstanding as at 31 December 2021 are exercised, the Company will receive proceeds of HK$421,800,000.

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.

RESTRICTED SHARE AWARD SCHEME *(Continued)*

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

Since the adoption of the Restricted Share Award Scheme and as at 31 December 2021, no share has been purchased by the trustee and no share has been awarded to any Selected Participants pursuant to the Restricted Share Award Scheme.

DIRECTORS

The Directors during the year ended 31 December 2021 and up to the date of this Annual Report were:

Executive Directors

Mr. Qu Jiguang
Mr. Su Xuejun
Mr. Meng Guo *(appointed on 27 August 2021)*
Mr. Chow Hing Yeung *(appointed on 27 August 2021)*
Mr. Wang Xianjun *(resigned on 27 August 2021)*

Non-executive Director

Mr. Feng Hao

Independent Non-executive Directors

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

Pursuant to Article 86(3) of the Company's articles of association, Mr. Meng Guo and Mr. Chow Hing Yeung will retire from office in the forthcoming annual general meeting. Pursuant to Article 87 of the Company's articles of association, Mr. Qu Jiguang and Mr. Su Xuejun will retire from office by rotation in the forthcoming annual general meeting. All of them, being eligible, offer themselves for re-election in the forthcoming annual general meeting.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors and senior management are set out on pages 19 to 20.

PERMITTED INDEMNITY

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

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 29 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 interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the interest of Directors of the Company in businesses which was likely to compete with the Group during the year ended 31 December 2021 and as at 31 December 2021 were as follows:

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

Save as disclosed above, as at 31 December 2021 and up to the date of this Annual Report, none of the Directors are considered to be in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES

As at 31 December 2021, 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	Long	277,746,000	9.27%
	Interest in a controlled corporation *(Note 1)*	Long	796,524,000	26.58%
Mr. Su Xuejun	Beneficial owner	Long	24,416,000	0.81%
Mr. Meng Guo	Beneficial owner *(Note 2)*	Long	20,000,000	0.67%
Mr. Chow Hing Yeung	Beneficial owner *(Note 2)*	Long	2,000,000	0.07%

Note:

1. These shares were registered in the name of and beneficially owned by China Pharmaceutical Company Limited ("CPCL"). CPCL is a corporation which Mr. Qu Jiguang controls (i.e. a controlled corporation as defined in Part XV of the SFO) as Mr. Qu Jiguang beneficially holds the majority (i.e. over 50%) of the shares of CPCL. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the shares held by CPCL.

2. These represent the underlying interest in shares of the Company pursuant to share options granted, among others, to Mr. Meng Guo and Mr. Chow Hing Yeung on 12 January 2021 under the Share Option Scheme. As at 31 December 2021 and up to date of this Annual Report, all of these share options remain outstanding and exercisable.

Save as disclosed above, as at 31 December 2021, none of the Directors or chief executives of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company or the Stock Exchange pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (b) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed under the sections headed "Directors' and chief executives' interests in the shares" and "Share option scheme", at no time during the year ended 31 December 2021 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 31 December 2021, 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	Long	277,746,000	9.27%
	Interest in a controlled corporation *(Note 1)*	Long	796,524,000	26.58%
CPCL *(Note 1)*	Beneficial owner	Long	796,524,000	26.58%
Sichuan Kelun Pharmaceutical Co., Ltd (四川科倫藥業股份有限公司)	Interest in a controlled corporation *(Note 2)*	Long	446,852,000	14.91%
	Beneficial owner	Long	159,870,000	5.33%
Kelun International Development Co., Ltd (科倫國際發展有限公司) *(Note 2)*	Beneficial owner	Long	446,852,000	14.91%
UBS Group AG *(Note 3)*	Interest in a controlled corporation	Long	291,635,808	9.73%

Notes:

1. These shares were registered in the name of and beneficially owned by CPCL. CPCL is a corporation which Mr. Qu Jiguang controls (i.e. a controlled corporation as defined in Part XV of the SFO) as Mr. Qu Jiguang beneficially holds the majority (i.e. over 50%) of the shares of CPCL. By virtue of Part XV of the SFO, Mr. Qu Jiguang is deemed to be interested in the shares held by CPCL

2. 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).

3. Among the interests of UBS Group AG in the Company, 496,000 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 year ended 31 December 2021.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2021, the Group's revenue attributable to its largest customer and its five largest customers are less than 10% and 30% respectively of its total revenue, and the Group's purchases attributable to its largest supplier and its five largest suppliers are less than 10% and 30% respectively of its total purchases.

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

CONNECTED TRANSACTIONS

During the year ended 31 December 2021, certain related party transactions as disclosed in note 29 to the financial statements also fell under the definition of "connected transactions" or "continuing connected transaction" in Chapter 14A of the Listing Rules, details of which are set out below in compliance with the requirements of Chapter 14A of the Listing Rules.

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

As the term of the previous Master Sale and Purchase Agreement has expired on 31 December 2020, the Company has entered into the Master Sale and Purchase Agreement with Sichuan Kelun, a substantial shareholder (as defined under the Listing Rules) of the Company, on 14 April 2021 in respect of the Continuing Connected Transactions between the Group and Sichuan Kelun together with its subsidiaries (the "Kelun Group") for a term from 14 April 2021 to 31 December 2023. Pursuant to the basic terms of the Master Sale and Purchase Agreement, the Group and the Kelun Group agreed to the sale and purchase of pharmaceutical materials on a non-exclusive basis, subject to the entering into of individual implementation contracts as agreed between members of the Group and that of the Kelun Group. The Master Sale and Purchase Agreement and the Continuing Connected Transactions contemplated thereunder were approved in the extraordinary general meeting of the Company held on 21 May 2021.

The unit prices of the pharmaceutical materials purchased by the Company are determined based on the prevailing market prices from time to time for the relevant materials of similar quantities and specifications to ensure that such prices and terms for pharmaceutical materials to be offered by the Kelun Group are no less favourable to the Group than those offered by other independent third-party suppliers. The unit prices of the pharmaceutical materials purchased by the Kelun Group shall be determined with reference to the prices of relevant comparable materials in the price lists of relevant material adopted by the Company and generally applicable to all customers of the Company at the material time.

CONNECTED TRANSACTIONS *(Continued)*

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

For the year ended 31 December 2021, total purchase from the Kelun Group by the Group and total sales to the Kelun Group by the Group were RMB176,107,000 and RMB30,959,000 respectively, which did not exceed the annual caps of RMB360,500,000 and RMB48,500,000 respectively prescribed for the period ended 31 December 2021 under the Master Sale and Purchase Agreement.

The independent non-executive Directors have confirmed that the aforesaid Continuing Connected Transactions were conducted (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms; (c) in accordance with the Master Sale and Purchase Agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole and (d) with adequate and effective internal control procedures put in place.

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

MANAGEMENT CONTRACT

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, it is confirmed that a sufficient public float of more than 25% of the issued capital of the Company has been maintained as at the latest practicable date, being 29 March 2022, and at all times during the year ended 31 December 2021.

CORPORATE GOVERNANCE

The Board is committed to maintaining a high standard of corporate governance. The Board believes that good corporate governance practices are essential for the growth of the Group and for safeguarding and maximizing shareholders' interests. The Board reviews its corporate governance practices from time to time in order to meet the stakeholders' expectations and comply with the latest regulatory requirements, and to fulfill its commitment to a high standard of corporate governance. The Company's corporate governance practices are set out in the Corporate Governance Report on pages 21 to 32.

AUDITOR

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

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held at 2:00 p.m. on 23 May 2022 at Rooms 4902-03, 49th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. A notice of annual general meeting will be published and despatched in accordance with the requirement of the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 18 May 2022 to Monday, 23 May 2022, both dates inclusive, during which period, no transfer of shares will be registered. In order to qualify to attend and vote at the forthcoming annual general meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Tuesday, 17 May 2022.

RECORD DATE FOR FINAL DIVIDEND

In order to qualify for the proposed final dividend to be approved at the forthcoming annual general meeting, all properly completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m., Thursday, 26 May 2022 which is the Record Date for the proposed final dividend. The proposed final dividend is expected to be paid on or about Wednesday, 8 June 2022.

On behalf of the Board

Qu Jiguang
Chairman

Hong Kong, 29 March 2022

KPMG

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

Opinion

We have audited the consolidated financial statements of SSY Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 66 to 151, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

KPMG

Timing of revenue recognition

Refer to note 4 to the consolidated financial statements and the accounting policies on pages 97 to 98.

The Key Audit Matter

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

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

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

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

How the matter was addressed in our audit

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

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition;

- inspecting a sample of framework distribution agreements and purchase orders with key customers to identify terms and conditions relating to goods acceptance and the right of return and assessing the Group's policies in respect of the timing of recognition of revenue with reference to the requirements of the prevailing accounting standards;

- comparing, on a sample basis, specific revenue transactions recorded before and after the financial year end date with underlying documentation, including goods delivery notes and goods acceptance notes, to assess whether revenue had been recognised in the appropriate financial period on the basis of the terms of sale as set out in the framework distribution agreements or purchase orders; and

- inspecting manual journal entries relating to revenue raised during the year which were considered to be material or met other specific risk-based criteria, enquiring of management the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation.

KPMG

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

Refer to notes 16 and 27(a) to the consolidated financial statements and the accounting policies on pages 85 to 88.

The Key Audit Matter

As at 31 December 2021, the gross amount of the Group's trade receivables totalled HK$1,954.3 million, against which HK$10.3 million for expected credit losses was made. The carrying value of the Group's trade receivables represented approximately 18.2% of the total assets as at 31 December 2021.

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

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

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

How the matter was addressed in our audit

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

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and the estimation of the expected credit loss allowance;
- evaluating the Group's policy for estimating the credit loss allowance with reference to the requirements of the prevailing accounting standard;
- re-performing the calculation of the loss allowance as at 31 December 2021 based on the Group's credit loss allowance policies;
- assessing the trade receivables ageing report by group based on shared credit risk characteristics and the days past due by comparing the details of individual items with underlying invoices on a sample basis;
- obtaining an understanding of the basis of management's approach to measuring ECLs of trade receivable balances and evaluating the loss allowance made by management with reference to the industry in which the debtors are operating, customer credit risk characteristics, ageing of receivables, overdue balances, historical and post year-end payment records; and
- assessing the appropriateness of management's estimates of loss allowance by examining the information used by management to derive such estimates, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current market conditions and forward-looking information.

KPMG

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

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

KPMG

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

KPMG

Certified Public Accountants

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

29 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2021
(Expressed in Hong Kong dollars)

	Note	**2021** ***HK$'000***	2020 *HK$'000*
Revenue	*4*	**5,356,763**	4,260,898
Cost of sales		**(2,186,517)**	(1,552,523)
Gross profit		**3,170,246**	2,708,375
Other income	*5*	**84,291**	71,717
Selling and distribution costs		**(1,707,028)**	(1,613,294)
General and administrative expenses		**(309,941)**	(281,339)
Research and development costs		**(247,992)**	(126,901)
(Provision for)/reversal of impairment loss on trade, bill and other receivables		**(1,491)**	324
Profit from operations		**988,085**	758,882
Finance income		**16,184**	17,805
Finance costs		**(61,298)**	(51,472)
Finance costs – net	*6(a)*	**(45,114)**	(33,667)
Share of profit of an associate		**5,426**	–
Profit before taxation	*6*	**948,397**	725,215
Income tax	*7*	**(160,104)**	(114,396)
Profit for the year		**788,293**	610,819
Other comprehensive income for the year, net of nil tax			
Item that is or may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency		**212,625**	418,623
Other comprehensive income for the year		**212,625**	418,623
Total comprehensive income for the year		**1,000,918**	1,029,442

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2021
(Expressed in Hong Kong dollars)

	Note	**2021** *HK$'000*	2020 *HK$'000*
Profit attributable to:			
Equity shareholders of the Company		**785,533**	611,971
Non-controlling interests		**2,760**	(1,152)
Profit for the year		**788,293**	610,819
Total comprehensive income attributable to:			
Equity shareholders of the Company		**990,390**	1,014,508
Non-controlling interests		**10,528**	14,934
Total comprehensive income for the year		**1,000,918**	1,029,442
Earnings per share	*10*		
– Basic		**HK$0.2599**	HK$0.2019
– Diluted		**HK$0.2591**	HK$0.2012

The notes on pages 72 to 151 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 26(b).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2021
(Expressed in Hong Kong dollars)

	Note	**31 December 2021 HK$'000**	31 December 2020 HK$'000
Non-current assets			
Property, plant and equipment	11	**4,051,004**	3,836,141
Right-of-use assets	11	**331,387**	333,382
Intangible assets	12	**907,196**	685,389
Interests in an associate	14	**441,694**	–
Deferred tax assets	24(b)	**30,930**	20,863
Pledged bank deposits and fixed deposits	18	**62,589**	119,335
		5,824,800	4,995,110
Current assets			
Inventories	15	**827,504**	638,301
Trade and bills receivables	16	**2,023,941**	1,813,313
Prepayments, deposits and other receivables	17	**299,811**	294,709
Pledged bank deposits and time deposits	18	**70,928**	66,369
Cash and cash equivalents	19	**1,661,736**	1,445,905
		4,883,920	4,258,597
Current liabilities			
Borrowings	20	**1,414,438**	1,327,115
Trade and bills payables	21	**401,685**	240,562
Contract liabilities		**94,333**	45,929
Lease liabilities	23	**2,809**	3,664
Accruals and other payables	22	**423,788**	469,591
Income tax payable	24(a)	**57,302**	30,883
		2,394,355	2,117,744
Net current assets		**2,489,565**	2,140,853
Total assets less current liabilities		**8,314,365**	7,135,963

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2021
(Expressed in Hong Kong dollars)

	Note	**31 December 2021 HK$'000**	31 December 2020 HK$'000
Non-current liabilities			
Borrowings	20	**1,688,757**	1,099,957
Lease liabilities	23	**1,801**	4,610
Deferred tax liabilities	24(b)	**21,409**	19,348
Deferred revenue	25	**109,690**	96,837
		1,821,657	1,220,752
NET ASSETS		**6,492,708**	5,915,211
CAPITAL AND RESERVES			
Share capital	26(c)	**66,741**	67,682
Reserves		**6,152,122**	5,584,354
Total equity attributable to equity shareholders of the Company		**6,218,863**	5,652,036
Non-controlling interests		**273,845**	263,175
TOTAL EQUITY		**6,492,708**	5,915,211

Approved and authorised for issue by the board of directors on 29 March 2022.

Qu Jiguang
Director

Su Xuejun
Director

The notes on pages 72 to 151 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2021
(Expressed in Hong Kong dollars)

	Note	Attributable to equity shareholders of the Company									
		Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Share-based payment reserve HK$'000	Currency translation differences HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2020		67,454	417,589	177,182	246,971	7,040	(357,330)	4,427,516	4,986,422	200,726	5,187,148
Changes in equity for 2020:											
Profit for the year		–	–	–	–	–	–	611,971	611,971	(1,152)	610,819
Other comprehensive income		–	–	–	–	–	402,537	–	402,537	16,086	418,623
Total comprehensive income		–	–	–	–	–	402,537	611,971	1,014,508	14,934	1,029,442
Capital contribution from non-controlling interests		–	–	268	–	–	–	–	268	47,515	47,783
Shares issued under share option scheme	*26(c)(iii)*	640	88,960	–	–	(7,040)	–	–	82,560	–	82,560
Dividends paid to equity shareholders of the Company	*26(b)*	–	(108,323)	–	–	–	–	(224,537)	(332,860)	–	(332,860)
Purchase and cancellation of own shares	*26(c)(ii)*	(412)	(98,450)	–	–	–	–	–	(98,862)	–	(98,862)
Transfer to statutory reserve		–	–	–	5,751	–	–	(5,751)	–	–	–
Balance at 31 December 2020		67,682	299,776	177,450	252,722	–	45,207	4,809,199	5,652,036	263,175	5,915,211

	Note	**Attributable to equity shareholders of the Company**									
		Share capital *HK$'000*	**Share premium *HK$'000***	**Capital reserve *HK$'000***	**Statutory reserve *HK$'000***	**Share-based payment reserve *HK$'000***	**Currency translation differences *HK$'000***	**Retained earnings *HK$'000***	**Total *HK$'000***	**Non-controlling interests *HK$'000***	**Total equity *HK$'000***
Balance at 1 January 2021		**67,682**	**299,776**	**177,450**	**252,722**	**–**	**45,207**	**4,809,199**	**5,652,036**	**263,175**	**5,915,211**
Changes in equity for 2021:											
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**785,533**	**785,533**	**2,760**	**788,293**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**204,857**	**–**	**204,857**	**7,768**	**212,625**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**204,857**	**785,533**	**990,390**	**10,528**	**1,000,918**
Capital contribution in a subsidiary		**–**	**–**	**(3,082)**	**–**	**–**	**–**	**–**	**(3,082)**	**3,082**	**–**
Dividends paid to equity shareholders of the Company	*26(b)*	**–**	**–**	**–**	**–**	**–**	**–**	**(302,610)**	**(302,610)**	**–**	**(302,610)**
Dividends paid by subsidiary to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,940)**	**(2,940)**
Purchase and cancellation of own shares	*26(c)(ii)*	**(941)**	**(186,673)**	**–**	**–**	**–**	**–**	**–**	**(187,614)**	**–**	**(187,614)**
Grant of share options	*26(d)(iii)*	**–**	**–**	**–**	**–**	**67,050**	**–**	**–**	**67,050**	**–**	**67,050**
Share of capital reserve of interests in an associate		**–**	**–**	**2,693**	**–**	**–**	**–**	**–**	**2,693**	**–**	**2,693**
Transfer to statutory reserve		**–**	**–**	**–**	**96,814**	**–**	**–**	**(96,814)**	**–**	**–**	**–**
Balance at 31 December 2021		**66,741**	**113,103**	**177,061**	**349,536**	**67,050**	**250,064**	**5,195,308**	**6,218,863**	**273,845**	**6,492,708**

The notes on pages 72 to 151 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2021
(Expressed in Hong Kong dollars)

	Note	**2021**	2020
		HK$'000	*HK$'000*
Operating activities			
Cash generated from operations	*19(b)*	**901,308**	720,290
Interest paid		**(62,850)**	(54,070)
Income tax paid	*24(a)*	**(142,832)**	(161,661)
Net cash generated from operating activities		**695,626**	504,559
Investing activities			
Purchase of property, plant and equipment		**(169,696)**	(214,688)
Payment for additions to intangible assets		**(218,627)**	(106,836)
Proceeds from disposal of property, plant and equipment		**453**	333
Government grant received related to property, plant and equipment	*25*	**39,002**	30,493
Payment for investment in an associate	*14*	**(427,484)**	–
Interest received		**24,707**	22,977
Decrease/(increase) of time deposits and fixed deposits		**84,405**	(44,665)
Payment for purchase of equity securities		**(24,001)**	–
Proceeds from sale of equity securities		**34,717**	–
Net cash used in investing activities		**(656,524)**	(312,386)
Financing activities			
Proceeds from exercise of share options	*26(c)(iii)*	**–**	82,560
Payments for repurchase of own shares of the Company	*26(c)(ii)*	**(187,614)**	(98,862)
Capital element of lease rentals paid	*19(c)*	**(3,678)**	(3,506)
Interest element of lease rentals paid	*19(c)*	**(267)**	(313)
Proceeds from borrowings	*19(c)*	**2,220,945**	1,664,273
Repayments of borrowings	*19(c)*	**(1,587,706)**	(992,722)
Dividends paid to equity shareholders of the Company	*26(b)*	**(302,610)**	(332,860)
Dividends paid by subsidiary to non-controlling interests		**(2,940)**	–
Proceeds from capital contribution from non-controlling interests		**–**	47,783
Net cash generated from financing activities		**136,130**	366,353
Net increase in cash and cash equivalents		**175,232**	558,526
Cash and cash equivalents at 1 January		**1,445,905**	817,429
Effect of foreign exchange rate changes		**40,599**	69,950
Cash and cash equivalents at 31 December	*19(a)*	**1,661,736**	1,445,905

The notes on pages 72 to 151 form part of these financial statements.

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 pharmaceutical products, which includes finished medicines, 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.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Company and its subsidiaries.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

(c) Changes in accounting policies

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

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform – phase 2*

- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*

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

(d) Subsidiaries and non-controlling interests

(i) Consolidation

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

– *Business combinations*

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

2 **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

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

(i) Consolidation *(continued)*

– *Business combinations (continued)*

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(i) Consolidation *(continued)*

– *Disposal of subsidiaries*

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

(ii) Company's statement of financial position

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

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

(e) Segment reporting

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(j)(i) and (k)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees, any impairment losses for the year and the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income are recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the associate, after applying the ECL model to such other long-term interests where applicable (see note 2(n)).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

(iii) Group companies

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

– assets and liabilities for each financial position presented are translated at the closing rate at the end of the reporting period;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Foreign currency translation *(continued)*

(iii) Group companies *(continued)*

– all resulting currency translation differences are recognised in other comprehensive income.

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

(h) Property, plant and equipment

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

(i) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

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

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

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2(k)).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Leased assets *(continued)*

(i) As a lessee *(continued)*

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortised cost (see notes 2(l)(i), 2(bb) and 2(n)). Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of HKFRS 16 Leases. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

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

(ii) As a lessor

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Intangible assets

(i) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

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

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(ii) Trademarks and patents

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

–	Trademarks	50 years
–	Patents	7 – 10 years

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Intangible assets *(continued)*

(iii) Customer relationships

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

(iv) Computer software

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

(v) Research and development costs

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of non-financial assets

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

– property, plant and equipment, including right-of-use assets;

– intangible assets;

– goodwill;

– interests in an associate; and

– investments in subsidiaries in the Company's statement of financial position.

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

– ***Calculation of recoverable amount***

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

– ***Recognition of impairment losses***

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Impairment of non-financial assets *(continued)*

– ***Reversals of impairment losses***

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

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

(l) Other investments in debt and equity securities

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

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 27(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

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

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(bb)).

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Other investments in debt and equity securities *(continued)*

(ii) Equity investments

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

(m) Offsetting financial instruments

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

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

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

– financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables, which are held for the collection of contractual cash flows which represent solely payments of principal and interest);

– contract assets as defined in HKFRS 15 (see note 2(p)); and

– lease receivables.

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

Measurement of ECLs

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Measurement of ECLs *(continued)*

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

– fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate;

– lease receivables: discount rate used in the measurement of the lease receivable;

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

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

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Significant increases in credit risk

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

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

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Basis of calculation of interest income

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

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

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

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the asset becomes 90 days past due or when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Inventories

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

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

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

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

(p) Contract assets and contract liabilities

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) Trade and other receivables

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

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost, using the effective interest method and including an allowance for credit losses (see note 2(n)).

(r) Cash and cash equivalents

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

(s) Share capital

Ordinary shares are classified as equity.

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

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

(t) Trade and other payables

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

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Borrowings

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

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

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

(v) Borrowing costs

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

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

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

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

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

2 **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(w) Current and deferred income tax

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

(i) Current income tax

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

(ii) Deferred income tax

– *Inside basis differences*

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

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

– *Outside basis differences*

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(iii) Offsetting

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

(x) Employee benefits

(i) Pension obligations

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

– *Defined contribution plan*

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Employee benefits *(continued)*

(i) Pension obligations *(continued)*

– *Defined contribution plan (continued)*

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

– *Post-employment benefits*

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

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

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

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

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

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

2 **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(x) Employee benefits *(continued)*

(i) Pension obligations *(continued)*

– *Post-employment benefits (continued)*

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

(ii) Share-based compensation

– *Equity-settled share-based payment transactions*

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Employee benefits *(continued)*

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

– *Share-based payment transactions among group entities*

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

(iii) Employee leave entitlements

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

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

(iv) Bonus plan

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

(y) Provisions, contingent liabilities and onerous contracts

(i) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(ii) Onerous contracts

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

(z) Government grants

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

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

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

(aa) Revenue

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(aa) Revenue *(continued)*

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

- Revenue from the sale of goods is recognised upon the transfer of control of the goods to the customer, which generally coincides with the point in time when a group company has delivered products to the customer, the customer has taken possession of and accepted the products and collection of consideration is probable;

- Rental income is recognised on a straight-line basis over the terms of the leases; and

- Services income is recognised over time in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(bb) Interest income

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

(cc) Dividend income

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

(dd) Dividend distributions

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

(ee) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(ee) Related parties *(continued)*

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

3 ACCOUNTING JUDGEMENT AND ESTIMATES

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

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

(a) Impairment of goodwill

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

3 ACCOUNTING JUDGEMENT AND ESTIMATES *(continued)*

(a) Impairment of goodwill *(continued)*

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

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

(b) Impairment of receivables

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

(c) Net realisable value of inventories

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

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

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

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

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group derives revenue principally from the sale of a wide range of pharmaceutical products, which includes finished medicines of mainly intravenous infusion solution and ampoule injection to hospitals and distributors, bulk pharmaceutical products and medical materials.

(i) Disaggregation of revenue

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

	2021	2020
	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	**5,166,689**	4,135,107
– Sales of medical materials	**174,403**	117,915
– Services income	**5,071**	1,250
– Sales of raw materials and by-products	**10,373**	6,356
	5,356,536	4,260,628
Revenue from other source		
– Rental income	**227**	270
	5,356,763	4,260,898
Disaggregated by geographical location of customers		
– The PRC (place of domicile)	**4,875,960**	4,043,733
– Other countries	**480,803**	217,165
	5,356,763	4,260,898

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

The geographical analysis on revenue above includes rental income from external customers in the PRC for the year ended 31 December 2021 of HK$227,000 (2020: HK$270,000). The directors have determined that no geographical segment information of specified non-current assets is presented as over 95% of the non-current assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

For the year ended 31 December 2021, no customer with whom transactions have exceeded 10% of the Group's revenue. Details of concentrations of credit risk arising from the Group's largest customers are set out in note 27(a).

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting

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

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

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

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

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

4 **REVENUE AND SEGMENT REPORTING** *(continued)*

(b) Segment reporting *(continued)*

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2021 and 2020 is set out below.

	2021			
	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	5,174,515	176,950	–	5,351,465
Over time	5,071	227	–	5,298
Revenue from external customers	5,179,586	177,177	–	5,356,763
Inter-segment revenue	29,239	179,442	–	208,681
Reportable segment revenue	5,208,825	356,619	–	5,565,444
Operating profit or loss/ segment results	1,061,206	14,794	(87,915)	988,085
Finance income	15,661	66	457	16,184
Finance costs	(43,934)	–	(17,364)	(61,298)
Share of profit of an associate	5,426	–	–	5,426
Profit/(loss) before taxation	1,038,359	14,860	(104,822)	948,397
Income tax	(154,853)	(5,251)	–	(160,104)
Reportable segment profit/(loss) for the year	883,506	9,609	(104,822)	788,293
Depreciation and amortisation for the year	365,842	21,026	2,946	389,814
Provision for impairment of receivables	1,444	47	–	1,491
Total assets/reportable segment assets (including interests in an associate)	10,209,569	414,280	84,871	10,708,720
Additions to non-current assets	1,084,087	44,032	–	1,128,119
Total liabilities/reportable segment liabilities	3,117,516	32,646	1,065,850	4,216,012

4 REVENUE AND SEGMENT REPORTING *(continued)*

(b) Segment reporting *(continued)*

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

5 OTHER INCOME

	2021	2020
	HK$'000	*HK$'000*
Government grants	**62,144**	62,600
Net gain on disposal of property, plant and equipment	**6**	2,055
Realised gain on disposal of equity securities	**10,716**	–
Others	**11,425**	7,062
	84,291	71,717

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

6 PROFIT BEFORE TAXATION

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

(a) Finance income and costs

	2021	2020
	HK$'000	*HK$'000*
Finance income:		
– Interest income on bank deposits	**(24,707)**	(22,977)
– Net foreign exchange loss	**8,523**	5,172
Finance income	**(16,184)**	(17,805)
Finance costs:		
– Interest expense of borrowings	**65,363**	64,545
– Interest on lease liabilities	**267**	313
	65,630	64,858
*Less: Interest expense capitalised into qualifying assets**	**(4,332)**	(13,386)
Finance costs	**61,298**	51,472
Finance costs – net	**45,114**	33,667

* During the year ended 31 December 2021, the borrowing costs have been capitalised at a rate of 4.20% per annum (2020: 4.05%).

6 PROFIT BEFORE TAXATION *(continued)*

(b) Staff costs

	2021	2020
	HK$'000	*HK$'000*
Contributions to defined contribution retirement plan	**48,616**	29,003
Equity-settled share-based payment expenses (note 26(d)(iii))	**67,050**	–
Salaries, wages and other benefits	**548,263**	440,420
	663,929	469,423

(c) Other items

	2021	2020
	HK$'000	*HK$'000*
Research and development costs	**461,148**	227,393
Less: Costs capitalised into intangible assets	**(213,156)**	(100,492)
	247,992	126,901
Amortisation#		
– intangible assets (note 12)	**15,275**	16,927
Less: Amount capitalised as development costs	**(974)**	(984)
	14,301	15,943
Depreciation charges#		
– owned property, plant and equipment (note 11(a))	**363,079**	290,637
– right-of-use assets (note 11(a))	**11,460**	10,776
Provision for/(reversal of) impairment losses		
– trade and bills receivables (note 27(a))	**1,366**	(332)
– other receivables	**125**	8
Auditors' remuneration – audit services	**2,870**	2,500
Cost of inventories# (note 15(b))	**2,180,338**	1,548,862
Other expenses		
– transportation expenses	**443,738**	363,129
– utility expenses	**308,558**	230,379
– advertising expenses	**283,463**	202,027
– marketing and promotion service expenses	**825,254**	993,395
– travelling, meeting and entertainment expenses	**63,010**	41,684
– surcharges and other tax expenses	**71,939**	55,421

6 PROFIT BEFORE TAXATION *(continued)*

(c) Other items *(continued)*

\# Cost of inventories includes HK$570,892,000 (2020: HK$446,117,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.

7 INCOME TAX

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

	2021	2020
	HK$'000	*HK$'000*
Current tax – the PRC Corporate Income Tax ("CIT")	**167,983**	127,160
Deferred tax – origination and reversal of temporary differences	**(7,879)**	(12,764)
	160,104	114,396

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

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2021 and 2020 as the Group did not have any profits assessable to Hong Kong Profits Tax during the current and prior years.

Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No.4"), Jiangsu Best New Medical Material Co., Ltd. ("Jiangsu Best"), Hebei Guangxiang Pharmaceutical Co., Ltd. ("Hebei Guangxiang") and Hebei Guolong Pharmaceutical Co., Ltd. have been certified as High and New Technology Enterprises ("HNTE") in 2021, 2020, 2020 and 2020, respectively. According to the tax incentives rules of the CIT Law of the PRC (the "CIT Law") for HNTE, these entities are subject to a reduced corporate income tax rate of 15% for three years. The additional deduction of research and development expenditures have been increased from 75% to 100%, effective since 2021, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in March 2021.

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.

7 INCOME TAX *(continued)*

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

	2021 **HK$'000**	2020 HK$'000
Profit before taxation	**948,397**	725,215
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**246,327**	183,846
Effect of the PRC preferential tax rate	**(101,857)**	(74,617)
Effect of non-deductible expenses	**20,351**	8,621
Additional deduction of research and development expenditures	**(28,351)**	(13,004)
Withholding tax on profit distributions	**20,031**	8,449
Others	**3,603**	1,101
Actual tax expense	**160,104**	114,396

8 DIRECTORS' EMOLUMENTS

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

	2021							
Name	Directors' fees *HK$'000*	Salaries *HK$'000*	Discretionary bonuses *HK$'000*	Housing allowance *HK$'000*	Estimated money value of other benefits (a) *HK$'000*	Retirement scheme contributions *HK$'000*	Share-based payment (c) *HK$'000*	Total *HK$'000*
Executive directors								
Mr. Qu Jiguang	–	6,690	–	–	–	–	–	6,690
Mr. Wang Xianjun (resigned on 27 August 2021)	–	3,732	–	–	–	12	–	3,744
Mr. Su Xuejun	–	914	549	–	115	56	–	1,634
Mr. Meng Guo (appointed on 27 August 2021) (b)	–	704	274	–	64	56	13,410	14,508
Mr. Chow Hing Yeung (appointed on 27 August 2021) (b)	–	1,007	–	–	–	18	1,341	2,366
Independent non-executive directors								
Mr. Wang Yibing	228	–	–	–	–	–	–	228
Mr. Leung Chong Shun	228	–	–	–	–	–	–	228
Mr. Chow Kwok Wai	228	–	–	–	–	–	–	228
Non-executive director								
Mr. Feng Hao	228	–	–	–	–	–	–	228
	912	13,047	823	–	179	142	14,751	29,854

8 DIRECTORS' EMOLUMENTS *(continued)*

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

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

(b) The directors received emoluments from the Group in their roles as employees before their appointment as directors.

(c) These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(x) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 26(c)(iii).

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2020: three) is director whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other four (2020: two) individuals are as follows:

	2021	2020
	HK$'000	*HK$'000*
Salaries and other benefits	**2,059**	1,636
Discretionary bonuses	**705**	206
Retirement scheme contributions	**150**	62
Share-based payment	**50,288**	–
	53,202	1,904

The emoluments of the four (2020: two) individuals with the highest emoluments are within the following bands:

	2021	2020
	Number of individuals	*Number of individuals*
Nil – HK$1,000,000	**–**	2
HK$1,000,001 – HK$10,000,000	**1**	–
HK$10,000,001 – HK$20,000,000	**2**	–
HK$20,000,001 – HK$30,000,000	**1**	–

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$785,533,000 (2020: HK$611,971,000) and the weighted average of 3,022,675,000 ordinary shares (2020: 3,030,997,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2021	2020
	'000	*'000*
Issued ordinary shares at 1 January	**3,043,727**	3,032,325
Effect of purchase and cancellation of own shares *(note 26(c)(ii))*	**(21,052)**	(6,879)
Effect of share options exercised *(note 26(c)(iii))*	**–**	5,551
Weighted average number of ordinary shares at 31 December	**3,022,675**	3,030,997

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$785,533,000 (2020: HK$611,971,000) and the weighted average of 3,031,547,000 ordinary shares (2020: 3,041,974,000 ordinary shares) after adjusting the effect of dilutive potential ordinary shares under the Company's share option scheme, calculated as follows:

Weighted average number of ordinary shares (diluted)

	2021	2020
	'000	*'000*
Weighted average number of ordinary shares at 31 December (basic)	**3,022,675**	3,030,997
Effect of deemed issue of shares under the Company's share option scheme	**8,872**	10,977
Weighted average number of ordinary shares at 31 December (diluted)	**3,031,547**	3,041,974

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

(a) Reconciliation of carrying amount

	Buildings HK$'000	Plant, machinery and tools HK$'000	Furniture, fixtures, office equipment and others HK$'000	Vehicles HK$'000	Construction-in-progress HK$'000	Sub-total HK$'000	Right-of-use assets HK$'000	Total HK$'000
Cost:								
1 January 2020	1,815,332	1,806,842	340,071	45,912	782,166	4,790,323	305,879	5,096,202
Transfers	365,920	204,058	20,453	–	(638,363)	(47,932)	47,932	–
Additions	37,303	103,739	38,187	3,296	354,827	537,352	13,933	551,285
Disposals	–	(16,572)	(18,382)	(4,054)	–	(39,008)	(3,933)	(42,941)
Exchange adjustments	139,338	132,501	23,779	2,790	34,447	332,855	22,378	355,233
31 December 2020 and 1 January 2021	**2,357,893**	**2,230,568**	**404,108**	**47,944**	**533,077**	**5,573,590**	**386,189**	**5,959,779**
Transfers	**242,150**	**103,847**	**5,871**	**–**	**(351,868)**	**–**	**–**	**–**
Additions	**32,567**	**132,103**	**19,046**	**12,484**	**276,148**	**472,348**	**–**	**472,348**
Disposals	**–**	**(23,351)**	**(7,800)**	**(2,303)**	**–**	**(33,454)**	**–**	**(33,454)**
Exchange adjustments	**72,087**	**69,173**	**12,190**	**1,958**	**14,588**	**169,996**	**11,089**	**181,085**
At 31 December 2021	**2,704,697**	**2,512,340**	**433,415**	**60,083**	**471,945**	**6,182,480**	**397,278**	**6,579,758**

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

(a) Reconciliation of carrying amount *(continued)*

	Buildings	Plant, machinery and tools	Furniture, fixtures, office equipment and others	Vehicles	Construction-in-progress	Sub-total	Right-of-use assets	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Accumulated amortisation and depreciation:								
1 January 2020	(387,545)	(771,156)	(185,976)	(31,248)	–	(1,375,925)	(42,227)	(1,418,152)
Charge for the year	(99,226)	(157,325)	(30,670)	(3,416)	–	(290,637)	(10,776)	(301,413)
Written back on disposals	–	12,370	16,390	3,423	–	32,183	3,212	35,395
Exchange adjustments	(31,883)	(56,813)	(12,484)	(1,890)	–	(103,070)	(3,016)	(106,086)
31 December 2020 and 1 January 2021	**(518,654)**	**(972,924)**	**(212,740)**	**(33,131)**	**–**	**(1,737,449)**	**(52,807)**	**(1,790,256)**
Charge for the year	**(113,141)**	**(208,302)**	**(37,452)**	**(4,184)**	**–**	**(363,079)**	**(11,460)**	**(374,539)**
Written back on disposals	**–**	**17,689**	**6,847**	**1,720**	**–**	**26,256**	**–**	**26,256**
Exchange adjustments	**(17,312)**	**(31,712)**	**(6,869)**	**(1,311)**	**–**	**(57,204)**	**(1,624)**	**(58,828)**
At 31 December 2021	**(649,107)**	**(1,195,249)**	**(250,214)**	**(36,906)**	**–**	**(2,131,476)**	**(65,891)**	**(2,197,367)**
Net book value:								
At 31 December 2021	**2,055,590**	**1,317,091**	**183,201**	**23,177**	**471,945**	**4,051,004**	**331,387**	**4,382,391**
At 31 December 2020	1,839,239	1,257,644	191,368	14,813	533,077	3,836,141	333,382	4,169,523

As at 31 December 2021, the Group's right-of-use assets with a carrying amount of HK$54,746,000 (2020: HK$54,347,000) was pledged as collateral for the Group's bank borrowings (see note 20).

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

(b) Right-of-use assets

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

	Note	**2021** **HK$'000**	2020 HK$'000
Properties leased for own use, carried at depreciated cost	*(i)*	**4,847**	8,531
Land use rights, carried at depreciated cost	*(ii)*	**326,540**	324,851
		331,387	333,382

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

	2021 **HK$'000**	2020 HK$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Properties leased for own use, carried at depreciated cost	**3,709**	3,610
Land use rights, carried at depreciated cost	**7,751**	7,166
	11,460	10,776
Interest on lease liabilities *(note 6(a))*	**267**	313
Expense relating to short-term leases	**8,197**	6,112

During the year, additions to right-of-use assets were nil (2020: HK$61,865,000), of which, nil (2020: HK$52,812,000) related to the purchase of land use rights.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 19(d) and 23, respectively.

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

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

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

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

(ii) Land use rights

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

(c) Assets leased out under operating leases

The Group leases out certain office premise in the PRC under operating leases. The lease typically run for an initial period of three years with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals. In 2021, the rental income is insignificant (see note 4(a)).

12 INTANGIBLE ASSETS

	Goodwill *HK$'000*	Trademark and patents *HK$'000*	Software *HK$'000*	Customer relationships *HK$'000*	Internally generated research and development costs *HK$'000*	Total *HK$'000*
Cost:						
At 1 January 2020	475,309	177,137	24,594	77,648	181,712	936,400
Additions	–	14,605	1,066	–	100,492	116,163
Transfer	–	29,211	–	–	(29,211)	–
Exchange adjustments	30,575	12,212	1,641	4,994	17,313	66,735
At 31 December 2020 and 1 January 2021	**505,884**	**233,165**	**27,301**	**82,642**	**270,306**	**1,119,298**
Additions	**–**	**241**	**680**	**–**	**213,156**	**214,077**
Transfer	**–**	**68,829**	**–**	**–**	**(68,829)**	**–**
Exchange adjustments	**14,874**	**6,859**	**813**	**2,430**	**11,006**	**35,982**
At 31 December 2021	**520,758**	**309,094**	**28,794**	**85,072**	**425,639**	**1,369,357**
Accumulated amortisation						
At 1 January 2020	(229,389)	(72,593)	(13,221)	(75,688)	–	(390,891)
Amortisation charge for the year	–	(10,777)	(4,175)	(1,975)	–	(16,927)
Exchange adjustments	(14,756)	(5,272)	(1,084)	(4,979)	–	(26,091)
At 31 December 2020 and 1 January 2021	**(244,145)**	**(88,642)**	**(18,480)**	**(82,642)**	**–**	**(433,909)**
Amortisation charge for the year	**–**	**(11,380)**	**(3,895)**	**–**	**–**	**(15,275)**
Exchange adjustments	**(7,178)**	**(2,770)**	**(599)**	**(2,430)**	**–**	**(12,977)**
At 31 December 2021	**(251,323)**	**(102,792)**	**(22,974)**	**(85,072)**	**–**	**(462,161)**
Net book value:						
At 31 December 2021	**269,435**	**206,302**	**5,820**	**–**	**425,639**	**907,196**
At 31 December 2020	261,739	144,523	8,821	–	270,306	685,389

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

12 INTANGIBLE ASSETS *(continued)*

Impairment tests for cash-generating units containing goodwill

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

	2021	2020
	HK$'000	*HK$'000*
Intravenous infusion solution and others	**246,512**	239,471
Medical materials	**22,923**	22,268
	269,435	261,739

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

	Intravenous infusion solution and others		**Medical materials**	
	2021	2020	**2021**	2020
Gross profit margin in the next five to ten years	**51.5% - 54.6%**	52.5% - 57.2%	**25.8%**	26.6%
Growth rate in the next five to ten years	**19% - 38%**	11% - 36%	**3% - 31%**	3% - 37%
Other operating cost (as of revenue)	**32%**	31% - 32%	**10%**	9%
Perpetual growth rate	**3%**	3%	**3%**	3%
Pre-tax discount rate	**15.6%**	16.4%	**16.4%**	16.4%

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

The recoverable amount of the CGU of Intravenous infusion solution and others and Medical materials is estimated to exceed the carrying amount of the CGU at 31 December 2021 and 2020.

(Expressed in Hong Kong dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES

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

			Proportion of ownership interest				
Name of company	**Place of incorporation and business**	**Issued/ registered capital**	**Group's effective interest**	**Held by the Company**	**Held by subsidiaries**	**Principal activities**	**Type of legal entity**
New Orient Investments Pharmaceutical Holding (Hong Kong) Limited	Samoa/ Hong Kong	United States Dollar ("USD") 1	100%	100%	–	Investment holding	Limited liability company
Shijiazhuang No. 4 Pharmaceutical Co., Ltd. ("Shijiazhuang No. 4") *(note (i))*	The PRC	RMB600,000,000	100%	–	100%	Manufacturing and sale of pharmaceutical products	Limited liability company
Hebei Guolong Pharmaceutical Co., Ltd.	The PRC	RMB250,000,000	100%	–	100%	Manufacturing and sale of pharmaceutical products	Limited liability company
Hebei Jinmen Pharmaceutical Import and Export Co., Ltd.	The PRC	RMB5,000,000	100%	–	100%	Trading of pharmaceutical products	Limited liability company
Hebei Guangxiang Pharmaceutical Technology Co., Ltd.	The PRC	RMB3,000,000	100%	–	100%	Pharmaceutical technology research and development and consulting	Limited liability company
Hebei Guangxiang Logistics Co., Ltd.	The PRC	RMB3,000,000	86%	–	86%	Logistics of pharmaceutical products	Limited liability company
Shijiazhuang Guangxiang Catering Co., Ltd.	The PRC	RMB500,000	100%	–	100%	Provision of food, beverages and catering	Limited liability company
Jiangsu Best New Medical Material Co., Ltd.	The PRC	RMB200,000,000	100%	41%	59%	Manufacturing and sale of pharmaceutical products	Limited liability company
Hebei Hanlin Biotechnology Co., Ltd.	The PRC	RMB15,000,000	75%	–	75%	Research and development of biotechnology and related products	Limited liability company
Hebei Guangxiang Pharmaceutical Co., Ltd. ("Hebei Guangxiang") *(note (i))*	The PRC	RMB850,000,000	76%	–	76%	Manufacturing and sale of pharmaceutical products	Limited liability company
Anhui Guangxiang Pharmaceutical Co., Ltd.	The PRC	RMB10,000,000	80%	–	80%	Trading of pharmaceutical products	Limited liability company

(Expressed in Hong Kong dollars unless otherwise indicated)

13 INVESTMENTS IN SUBSIDIARIES *(continued)*

Note:

(i) As at 31 December 2020, the Group's effective interests in Hebei Guangxiang was 70%. During 2021, Shijiazhuang No.4 (a wholly-owned subsidiary of the Group) subscribed for newly issued share capital of Hebei Guangxiang of RMB180,000,000 at a cash consideration of RMB199,800,000, equivalent to HK$242,444,000. The Group's effective interests in Hebei Guangxiang was increased to 76%.

The directors are of the view that the Group has no individually material non-controlling interests for the years ended 31 December 2021 and 2020.

14 INTERESTS IN AN ASSOCIATE

As at 31 December 2021, the following list contains the particulars of the associate, which is a listed corporate entity whose quoted market price is available:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Cisen Pharmaceutical Co., Ltd.* ("Cisen") *(Note)* 辰欣藥業股份有限公司	Incorporated	The PRC	453,333,000 ordinary shares	6.10%	–	6.10%	Production, sales and research and development of pharmaceuticals

* The English translation of these entities is for reference only. The official names of the entities established in the PRC are in Chinese.

Note: On 29 July 2021, the Group entered into an acquisition agreement with 天津乾鼎企業管理合夥企業（有限合夥）(Tianjin Qianding Corporation Management Partnership Enterprise (Limited Partnership)*) to acquire 6.1015% equity interest in Cisen, a company principally engaged in the business of research and development, production and sales of pharmaceuticals of mainly chemical preparations, at the total consideration of RMB354 million (equivalent to HK$427 million) (the "Transaction"). The acquisition of Cisen is an investment of the Group for its long-term returns.

Cisen is a company established under the laws of the PRC, the shares of which are listed on the main board of Shanghai Stock Exchange. On 14 September 2021, the Transaction was approved by the China Securities Regulatory Commission. The Group obtains significant influence over Cisen as a result of the right of representation on the Board of Directors of Cisen. On 31 December 2021, the quoted market price of Cisen was RMB13.35 per share and the market value of the investment in Cisen was RMB369 million (equivalent to HK$451 million).

The above associate is accounted for using the equity method in the consolidated financial statements.

14 INTERESTS IN AN ASSOCIATE *(continued)*

Summarised financial information of the material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statement, are disclosed below:

	Cisen Pharmaceutical Co., Ltd. 2021 *HK$'000*
Gross amounts of the associate	
Current assets	**4,740,027**
Non-current assets	**3,806,760**
Current liabilities	**1,198,904**
Non-current liabilities	**109,121**
Equity	**7,238,762**
Revenue	**4,561,023**
Profit from operations	**402,911**
Other comprehensive income	**(1,142)**
Total comprehensive income	**401,769**
Reconciled to the Group's interests in the associates	
Gross amounts of net assets of the associate	**7,238,762**
Group's effective interest	**6.1018%**
Group's share of net assets of the associate	**441,694**
Carrying amount in the consolidated financial statements	**441,694**

15 INVENTORIES

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

	2021 *HK$'000*	2020 *HK$'000*
Raw materials	**357,316**	307,630
Work in progress	**18,634**	4,902
Finished goods	**451,554**	325,769
	827,504	638,301

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

	2021 *HK$'000*	2020 *HK$'000*
Cost of inventories sold	**2,123,970**	1,517,841
Cost of inventories directly recognised as research and development costs and selling and distribution costs	**56,368**	31,021
	2,180,338	1,548,862

16 TRADE AND BILLS RECEIVABLES

	2021 *HK$'000*	2020 *HK$'000*
Trade receivables	**1,954,300**	1,628,535
Bills receivable	**79,910**	193,407
	2,034,210	1,821,942
Less: Loss allowance	**(10,269)**	(8,629)
	2,023,941	1,813,313

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

16 TRADE AND BILLS RECEIVABLES *(continued)*

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

As at 31 December 2021, the Group endorsed certain bank acceptance bills to suppliers for settling payables of the same amount on a full recourse basis. The Group has derecognised these bills receivable and payables to suppliers in their entirety. These derecognised bank acceptance bills had a maturity date of less than six months from the end of the reporting period. In the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations, should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of these bills are of good credit quality and non-settlement of these bills by the issuing banks on maturity is not probable. Bills receivable were therefore derecognised.

As at 31 December 2021, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to HK$623 million (31 December 2020: HK$480 million).

Ageing analysis

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

	2021 ***HK$'000***	2020 *HK$'000*
Within 3 months	**1,278,663**	1,241,113
4 to 6 months	**476,113**	332,059
7 to 12 months	**269,828**	226,460
1 to 2 years	**6,433**	22,310
More than 2 years	**3,173**	–
	2,034,210	1,821,942

Further details on the Group's credit policy and credit risk arising from trade and bills receivable are set out in note 27(a).

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2021	2020
	HK$'000	*HK$'000*
Individual income tax recoverable from employee *(note 22)*	**90,610**	90,610
Prepayments for purchases of inventories	**42,959**	33,512
Other deposits	**24,783**	4,967
Value-added tax recoverable	**75,983**	73,806
Staff advances	**13,148**	8,097
Government grants	**–**	26,620
Interest income on bank deposits	**8,608**	10,361
Professional service expense	**18,356**	12,570
Others	**25,586**	34,258
	300,033	294,801
Less: Loss allowance	**(222)**	(92)
	299,811	294,709

18 PLEDGED BANK DEPOSITS, TIME DEPOSITS AND FIXED DEPOSITS

	2021	2020
	HK$'000	*HK$'000*
Current		
Time deposits with original maturities over three months	**37,916**	61,547
Pledged bank deposits	**33,012**	4,822
	70,928	66,369
Non-current		
Pledged bank deposits	**456**	519
Fixed deposits with original maturities over one year	**62,133**	118,816
	62,589	119,335

Pledged bank deposits as at 31 December 2021 were pledged for letters of credit facilities and bank acceptance notes issued by Shijiazhuang No.4 and its subsidiaries.

As at 31 December 2021, fixed deposits with original maturities over one year have guaranteed repayment of principal, fixed returns and maturity periods of two to four years from the date of issue.

19 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	2021 *HK$'000*	2020 *HK$'000*
Cash on hand	**23**	22
Cash at bank	**1,661,713**	1,445,883
Cash and cash equivalents in the consolidated cash flow statement	**1,661,736**	1,445,905

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

	Note	2021 *HK$'000*	2020 *HK$'000*
Profit before taxation		**948,397**	725,215
Adjustments for:			
Provision for/(reversal of) impairment of trade and bills receivables	*6(c)*	**1,366**	(332)
Provision for impairment of other receivables	*6(c)*	**125**	8
Amortisation of intangible assets	*6(c)*	**14,301**	15,943
Amortisation of deferred revenue	*25*	**(9,844)**	(13,372)
Depreciation	*6(c)*	**374,539**	301,413
Finance costs	*6(a)*	**61,298**	51,472
Interest income	*6(a)*	**(24,707)**	(22,977)
Share of profit of an associate		**(5,426)**	–
Net gain on disposal of property, plant and equipment	*5*	**(6)**	(2,055)
Realised gain on disposal of equity securities	*5*	**(10,716)**	–
Equity-settled share-based payment expenses	*6(b)*	**67,050**	–
Changes in working capital:			
Increase in inventories		**(172,814)**	(186,376)
Increase in trade and bills receivables		**(535,651)**	(204,977)
Increase in prepayments, deposits and other receivables		**(11,030)**	(27,105)
Increase in trade and bills payables		**149,892**	55,217
Increase/(decrease) in contract liabilities		**46,388**	(4,292)
Increase in accruals and other payables		**35,719**	32,616
Increase in pledged bank deposits		**(27,573)**	(108)
Cash generated from operations		**901,308**	720,290

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

(c) Reconciliation of liabilities arising from financing activities

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

	Lease liabilities *HK$'000*	Borrowings *(note 20)* *HK$'000*
At 1 January 2021	8,274	2,427,072
Changes from financing cash flows:		
Proceeds from new bank loans	–	2,220,945
Repayment of bank loans	–	(1,587,706)
Capital element of lease rentals paid	(3,678)	–
Interest element of lease rentals paid	(267)	–
Total changes from financing cash flows	(3,945)	633,239
Exchange adjustments	14	40,122
Other change:		
Interest expense	267	2,762
Total other change	267	2,762
At 31 December 2021	4,610	3,103,195

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

(c) Reconciliation of liabilities arising from financing activities

	Lease liabilities	Borrowings *(note 20)*
	HK$'000	*HK$'000*
At 1 January 2020	3,298	1,695,857
Changes from financing cash flows:		
Proceeds from new bank loans	–	1,664,273
Repayment of bank loans	–	(992,722)
Capital element of lease rentals paid	(3,506)	–
Interest element of lease rentals paid	(313)	–
Total changes from financing cash flows	(3,819)	671,551
Exchange adjustments	65	63,050
Other changes:		
Increase in lease liabilities from entering into new leases during the year	8,417	–
Interest expense	313	(3,386)
Total other changes	8,730	(3,386)
At 31 December 2020	8,274	2,427,072

(d) Total cash outflow for leases

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

	2021	2020
	HK$'000	*HK$'000*
Within operating cash flows	**8,197**	6,112
Within financing cash flows	**3,945**	3,819
	12,142	9,931

20 BORROWINGS

(a) The analysis of the repayment schedule of bank borrowings is as follows:

	2021	2020
	HK$'000	*HK$'000*
Within 1 year or on demand	**1,414,438**	1,327,115
After 1 year but within 2 years	**1,093,111**	46,681
After 2 years but within 5 years	**595,646**	1,053,276
	1,688,757	1,099,957
	3,103,195	2,427,072

(b) Assets pledged as security and covenants for bank borrowings

At 31 December 2021 and 2020, the Group's bank borrowings were secured as follows:

	2021	2020
	HK$'000	*HK$'000*
Bank borrowings		
– secured	**234,834**	292,286
– unsecured	**2,868,361**	2,134,786
	3,103,195	2,427,072

As at 31 December 2021, the Group's borrowings of HK$234,834,000 (2020: HK$292,286,000) were secured by the Group's right-of-use assets with a carrying amount of HK$54,746,000 (2020: HK$54,347,000).

The Group's drawn down bank facilities of HK$2,521,615,000 (2020: HK$2,231,026,000) are subject to the fulfilment of covenants relating to certain specific performance requirements on the Group. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with covenants. As at 31 December 2021, the Group did not breach any covenants relating to drawn down facilities, which would be paid on demand by the banks.

21 TRADE AND BILLS PAYABLE

	2021	2020
	HK$'000	*HK$'000*
Within 3 months	**377,575**	207,145
4 to 6 months	**15,693**	20,391
7 to 12 months	**4,272**	9,528
1 to 3 years	**3,194**	2,788
More than 3 years	**951**	710
	401,685	240,562

22 ACCRUALS AND OTHER PAYABLES

	2021	2020
	HK$'000	*HK$'000*
Payables for purchase of property, plant and equipment	**152,184**	224,819
Withholding individual income tax payables	**90,610**	90,610
Accrued salaries and wages	**47,375**	42,019
Deposits from constructors	**47,379**	39,416
Value-added tax payable	**36,093**	26,931
Welfare payables	**6,585**	4,485
Professional fee payables	**14,587**	16,919
Travelling, meeting and entertainment expenses	**14,082**	12,631
Reserve for production safety	**4,714**	1,956
Others	**10,179**	9,805
	423,788	469,591

Withholding individual income tax payables

According to the relevant the PRC tax laws and regulations, the PRC subsidiaries of the Group are responsible for withholding individual income tax for directors and employees' gain from the disposal of their shares of the Company acquired through the option scheme. In this regard, HK$90,610,000 (31 December 2020: HK$90,610,000) payables relating to the PRC individual income taxes in total have been recorded in the consolidated financial statements. Meanwhile, the same amount of receivables is also recorded (note 17).

23 LEASE LIABILITIES

At 31 December 2021, the lease liabilities were repayable as follows:

	2021 *HK$'000*	2020 *HK$'000*
Within 1 year or on demand	**2,809**	3,664
After 1 year but within 2 years	**1,801**	2,809
After 2 years but within 5 years	**–**	1,801
	1,801	4,610
	4,610	8,274

24 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2021 *HK$'000*	2020 *HK$'000*
At beginning of the year	**30,883**	63,207
Provision for the year *(note 7(a))*	**167,983**	127,160
Tax paid	**(142,832)**	(161,661)
Exchange adjustments	**1,268**	2,177
At end of the year	**57,302**	30,883

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

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Deferred revenue *HK$'000*	Provision for asset impairment *HK$'000*	Amortisation and depreciation of assets *HK$'000*	Accrued expenses and others *HK$'000*	Revaluation of assets on acquisition *HK$'000*	Withholding tax *HK$'000*	Total *HK$'000*
At 1 January 2020	(9,509)	(1,359)	(926)	(1,228)	15,014	9,189	11,181
(Credited)/charged to profit or loss *(note 7(a))*	(4,172)	50	167	(2,738)	(3,632)	(2,439)	(12,764)
Exchange adjustments	(844)	(86)	(50)	(168)	762	454	68
At 31 December 2020 and 1 January 2021	**(14,525)**	**(1,395)**	**(809)**	**(4,134)**	**12,144**	**7,204**	**(1,515)**
(Credited)/charged to profit or loss *(note 7(a))*	**(1,480)**	**(253)**	**74**	**(7,690)**	**(1,032)**	**2,502**	**(7,879)**
Exchange adjustments	**(449)**	**(44)**	**(22)**	**(203)**	**343**	**248**	**(127)**
At 31 December 2021	**(16,454)**	**(1,692)**	**(757)**	**(12,027)**	**11,455**	**9,954**	**(9,521)**

Reconciliation to the consolidated statement of financial position:

	2021 **HK$'000**	2020 *HK$'000*
Net deferred tax assets recognised in the consolidated statement of financial position	**(30,930)**	(20,863)
Net deferred tax liabilities recognised in the consolidated statement of financial position	**21,409**	19,348
	(9,521)	(1,515)

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(w), the Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$85,621,000 (2020: HK$78,431,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses incurred by the Group's subsidiaries in the PRC will expire in 5 years from the respective balance sheet date and the tax losses incurred in other tax jurisdiction do not expire.

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

(d) Deferred tax liabilities not recognised

At 31 December 2021, temporary differences relating to the undistributed profits of subsidiaries in the PRC amounted to HK$5,917,301,000 (2020: HK$5,377,254,000). Deferred tax liabilities of HK$295,865,000 (2020: HK$268,863,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Group controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

25 DEFERRED REVENUE

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

The movements of deferred revenue are as follows:

	2021	2020
	HK$'000	*HK$'000*
At 1 January	**96,837**	56,137
Additions	**19,708**	48,496
Government grant recognised as other revenue	**(9,844)**	(13,372)
Exchange adjustments	**2,989**	5,576
At 31 December	**109,690**	96,837

26 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Share-based payment reserve HK$'000	(Accumulated losses)/ retained earnings HK$'000	Total HK$'000
Balance at 1 January 2020		67,454	417,589	173,703	7,040	(17,020)	648,766
Changes in equity for 2020:							
Shares issued under share option scheme	*26(c)(iii)*	640	88,960	–	(7,040)	–	82,560
Dividends paid to equity shareholders of the Company	*26(b)*	–	(108,323)	–	–	(224,537)	(332,860)
Purchase and cancellation of own shares	*26(c)(ii)*	(412)	(98,450)	–	–	–	(98,862)
Total comprehensive income for the year		–	–	–	–	262,005	262,005
Balance at 31 December 2020 and 1 January 2021		**67,682**	**299,776**	**173,703**	**–**	**20,448**	**561,609**
Changes in equity for 2021:							
Dividends paid to equity shareholders of the Company	*26(b)*	**–**	**–**	**–**	**–**	**(302,610)**	**(302,610)**
Purchase and cancellation of own shares	*26(c)(ii)*	**(941)**	**(186,673)**	**–**	**–**	**–**	**(187,614)**
Grant of share options	*26(d)(iii)*	**–**	**–**	**–**	**67,050**	**–**	**67,050**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**449,461**	**449,461**
Balance at 31 December 2021		**66,741**	**113,103**	**173,703**	**67,050**	**167,299**	**587,896**

26 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(b) Dividends

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

	2021 *HK$'000*	2020 *HK$'000*
Interim dividend declared and paid of HK5.0 cents per ordinary share (2020: HK5.0 cents per ordinary share)	**151,305**	151,023
Final dividend proposed after the end of the reporting period of HK7.0 cents per ordinary share (2020: HK5.0 cents per ordinary share)	**209,453**	151,305
	360,758	302,328

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

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

	2021 *HK$'000*	2020 *HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK5.0 cents per share (2020: HK6.0 cents per share)	**151,305**	181,837

26 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(c) Share capital

(i) Issued share capital

	2021		2020	
	No. of shares *('000)*	***HK$'000***	No. of shares *('000)*	*HK$'000*
Ordinary shares of HK$0.02 each, issued and fully paid:				
At 1 January	**3,043,727**	**67,682**	3,032,325	67,454
Purchase and cancellation of own shares *(note 26(c)(ii))*	**(47,038)**	**(941)**	(20,598)	(412)
Shares issued under share option scheme *(note 26(c)(iii))*	**–**	**–**	32,000	640
	2,996,689	**66,741**	3,043,727	67,682

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

(ii) Purchase and cancellation of own shares

In 2021, the Company repurchased and cancelled a total of 47,038,000 (2020: 20,598,000) ordinary shares of the Company through the Stock Exchange of Hong Kong Limited at an aggregate consideration of approximately HK$187,614,000 (2020: HK$98,862,000), in accordance with the Company Law of the Cayman Islands.

(iii) Shares issued under share option scheme

During 2020, a total of 32,000,000 share options were exercised by one director of the Company, with an exercise price of HK$2.58 to subscribe for 32,000,000 ordinary shares in the Company at a consideration of HK$82,560,000, all of which was credited to share capital and share premium. HK$7,040,000 was transferred from the share-based payment reserve to the share premium account in accordance with policy set out in note 2(x). No share options were exercised during 2021.

26 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves

(i) Share premium

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

(ii) Statutory reserve

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

(iii) Share-based payment reserve

On 12 January 2021, 100,000,000 share options were granted to seven employees of the Group, at a consideration of HK$1.00 in sum for each employee (no share options were granted during the year ended 31 December 2020). Each option entitles the holder to subscribe for one ordinary share in the Company. These share options vest immediately and are exercisable within a period of 5 years. The exercise price is HK$4.218. The Group has no legal or constructive obligation to repurchase or settle the share options in cash.

No share options were exercised during the year ended 31 December 2021 (year ended 31 December 2020: 32,000,000). As at 31 December 2021, the total number of share options outstanding and exercisable was 100,000,000 (31 December 2020: nil).

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

	2021		2020	
	Average exercise price *(HK$ per share)*	**Number of options *('000)***	Average exercise price *(HK$ per share)*	Number of options *('000)*
Outstanding at 1 January	**n/a**	**–**	2.58	32,000
Granted	**4.22**	**100,000**	n/a	–
Exercised	**n/a**	**–**	2.58	(32,000)
Outstanding and exercisable at 31 December		**100,000**		–

(Expressed in Hong Kong dollars unless otherwise indicated)

26 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(d) Nature and purpose of reserves *(continued)*

(iii) Share-based payment reserve *(continued)*

The weighted average share price at the date of exercise for share options exercised during 2020 was HK$4.58. No share options were exercised during 2021.

The options outstanding at 31 December 2021 had an exercise price of HK$4.218 (2020: nil) and a weighted average remaining contractual life of 4.03 years (2020: nil).

Fair value of share options and assumptions

The fair value of services received in return for share options is measured by reference to the fair value of share options granted. The fair value of share options granted during the year ended 31 December 2021 is HK$67,050,000 (2020: nil). The estimate of the fair value of the share options granted is measured based on a binomial tree model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial tree model.

Fair value of share options and assumptions	**2021**
Fair value at measurement dates	HK$0.67
Share price	HK$4.13
Exercise price	HK$4.218
Expected volatility (expressed as a weighted average volatility used in the modelling under binomial tree model)	40%
Option life	5 years
Suboptimal exercise factor	1.19
Expected dividend yield	2.66%
Average risk-free interest rate	0.15%

The expected volatility is determined by reference to the average implied volatility of comparable companies that manufacture similar products as the Group.

Expected dividend yield is based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

In respect of share options granted during the year ended 31 December 2021, the service condition has been taken into account in the grant date fair value measurement of the services received. There was no market condition associated with these share options.

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

(iv) Currency translation differences

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

26 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(e) Distributability of reserves

At 31 December 2021, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$280,402,000 (2020: HK$320,224,000).

(f) Capital management

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

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

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

The gearing ratios at 31 December 2021 and 2020 were as follows:

	2021 ***HK$'000***	2020 *HK$'000*
Borrowings *(note 20)*	**3,103,195**	2,427,072
Lease liabilities *(note 23)*	**4,610**	8,274
Less: Cash and cash equivalents *(note 19)*	**(1,661,736)**	(1,445,905)
Net debt	**1,446,069**	989,441
Total equity less non-controlling interests	**6,218,863**	5,652,036
Total capital less non-controlling interests	**7,664,932**	6,641,477
Gearing ratio	**18.9%**	14.9%

27 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents, pledged bank deposits, time deposits, fixed deposits and bills receivable is limited. The Group's exposure to credit risk arising from refundable rental deposits is considered to be low, taking into account the remaining lease term and the period covered by the rental deposits.

As at 31 December 2021, 97% (2020: 99%) of the Group's bank deposits are placed in major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality without significant credit risk. The Group also has policies that limit the amount of credit exposure to any financial institution, subject to periodic review.

	2021 ***HK$'000***	2020 *HK$'000*
State-owned banks	**1,037,228**	628,525
Listed banks other than state-owned banks	**697,653**	980,275
Other financial institutions	**60,349**	22,787
Total	**1,795,230**	1,631,587

As at 31 December 2021, all of the Group's bills receivables are bank acceptance notes, the credit risks of which rest with the issuing banks. The directors of the Company are satisfied that the risks arising from those notes are minimal considering the credit quality of the issuing banks. The Group does not provide any guarantees which would expose the Group to credit risk.

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

(a) Credit risk *(continued)*

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 6.09% (2020: 1.50%) and 16.62% (2020: 10.49%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

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

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

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

(a) Credit risk *(continued)*

Trade receivables *(continued)*

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

	2021		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	***$'000***	***$'000***
Current (not past due)	**0.50%**	**1,198,753**	**(5,993)**
1 – 90 days past due	**0.50%**	**476,113**	**(2,381)**
over 90 days past due	**0.68%**	**279,434**	**(1,895)**
		1,954,300	**(10,269)**

	2020		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	*$'000*	*$'000*
Current (not past due)	0.50%	1,047,706	(5,239)
1 – 90 days past due	0.50%	332,059	(1,660)
over 90 days past due	0.70%	248,770	(1,730)
		1,628,535	(8,629)

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

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

(a) Credit risk *(continued)*

Trade receivables *(continued)*

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

	2021	2020
	HK$'000	*HK$'000*
Balance at 1 January	**8,629**	8,437
Provision for/(reversal of) impairment losses recognised during the year	**1,366**	(332)
Exchange adjustments	**274**	524
Balance at 31 December	**10,269**	8,629

(b) Liquidity risk

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

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

	2021 Contractual undiscounted cash outflow				
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Total**	**Carrying amount at 31 December**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Borrowings	**1,481,672**	**1,122,242**	**615,437**	**3,219,351**	**3,103,195**
Trade and bills payables	**401,685**	**–**	**–**	**401,685**	**401,685**
Accruals and other payables	**297,085**	**–**	**–**	**297,085**	**297,085**
Lease liabilities	**2,931**	**1,820**	**–**	**4,751**	**4,610**
	2,183,373	**1,124,062**	**615,437**	**3,922,872**	**3,806,575**

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

(b) Liquidity risk *(continued)*

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

(c) Interest rate risk

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

(i) Interest rate profile

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

	2021		2020	
	Effective interest rate		Effective interest rate	
	%	***HK$'000***	%	*HK$'000*
Fixed rate instruments:				
Pledged bank deposits and time deposits	**0.30 – 3.99**	**133,517**	3.20 – 3.85	185,704
Cash at banks	**3.85**	**73,385**	1.75 – 3.99	106,934
Borrowings	**2.65 – 3.10**	**(887,353)**	1.78 – 3.03	(588,138)
Lease liabilities	**4.00**	**(4,610)**	3.92 – 5.88	(8,274)
		(685,061)		(303,774)
Variable rate instruments:				
Cash at banks	**0.01 – 0.35**	**1,588,328**	0.30 – 0.35	1,338,949
Borrowings	**1.05 – 4.20**	**(2,215,842)**	1.59 – 4.30	(1,838,934)
		(627,514)		(499,985)
		(1,312,575)		(803,759)

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

(c) Interest rate risk *(continued)*

(ii) Sensitivity analysis

At 31 December 2021, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately HK$6,937,000 (2020: HK$4,427,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained earnings) that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained earnings) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as 2020.

(d) Currency risk

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

(i) Exposure to currency risk

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

	2021			2020		
	RMB	**USD**	**Euro**	RMB	USD	Euro
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other receivables	**–**	**72,903**	**–**	–	38,958	–
Cash and cash equivalents	**1,014**	**112,744**	**15,934**	1,011	110,473	3,448
Trade and other payables	**–**	**(8,139)**	**(1,841)**	–	(6,582)	(954)
Net exposure arising from recognised assets and liabilities	**1,014**	**177,508**	**14,093**	1,011	142,849	2,494

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

(d) Currency risk

(ii) Sensitivity analysis

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

	2021		2020	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained earnings** *HK$'000*	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained earnings *HK$'000*
USD (against HKD)	**3%**	**4,484**	3%	3,600
	(3%)	**(4,484)**	-3%	(3,600)
EUR (against HKD)	**3%**	**359**	3%	64
	(3%)	**(359)**	-3%	(64)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2020.

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

(e) Fair value measurement

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

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

	Fair value at 31 December 2021	**Fair value measurements as at 31 December 2021**		
		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	**79,910**	**–**	**79,910**	**–**

	Fair value at 31 December 2020	Fair value measurements as at 31 December 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	193,407	–	193,407	–

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

(e) Fair value measurement *(continued)*

During the years ended 31 December 2020 and 2021, there were no transfers between Level 1 and Level 2, nor transfers into or out of Level 3 (2020: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The carrying values of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2020 and 2021.

For the year ended 31 December 2021, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial instruments. Moreover, there were no significant reclassifications of financial instruments.

28 COMMITMENTS

Capital commitments in regard of property, plant and equipment and intangible assets outstanding at 31 December 2021 not provided for in the financial statements were as follows:

	2021	2020
	HK$'000	*HK$'000*
Contracted for	**556,454**	345,425
Authorised but not contracted for	**33,023**	131,812
	589,477	477,237

29 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

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

	2021	2020
	HK$'000	*HK$'000*
Salaries, bonus, allowance and other benefits	**28,942**	11,204

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

29 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Related party transactions

During the years ended 31 December 2021 and 2020, the directors are of the view that the following companies are related parties:

Name of party	**Relationship**
Sichuan Kelun and its subsidiaries (together as "**Kelun Group**") *(i)*	The party whose parent has a significant influence on the Company
Cisen Pharmaceutical Co., Ltd. ("**Cisen**") *(ii)*	Associate of the Group

Note:

(i) 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.

(ii) Upon the completion of the acquisition transaction (See note 14), Cisen become an equity-accounted investee of the Group. The transactions with Cisen since the date of the acquisition were disclosed as related party transactions.

Particulars of the Group's transactions with these parties are as follows:

	2021	2020
	HK$'000	*HK$'000*
Sales of goods to Kelun Group	**37,330**	23,986
Sales of goods to Cisen (since the date of the acquisition)	**444**	–
Purchase of materials from Kelun Group	**212,348**	69,259

29 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Related party balances

	Note	2021 HK$'000	2020 HK$'000
Amounts due from related parties	*(i)*		
– Kelun Group		**6,648**	3,338
– Cisen		**95**	–
Amounts due to related parties	*(ii)*		
– Kelun Group		**19,014**	2,036

(i) The outstanding balances are trading balances related to the sale of pharmaceuticals and medical materials, which is included in "Trade and bills receivable" (See note 16).

(ii) The outstanding balances are trading balances related to the purchase of medical materials, which is included in "Trade and bills payables" (See note 21).

Amounts due from/to related parties are unsecured, interest-free and expected to be recovered within one year.

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

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

During the year ended 31 December 2021, the Group: (i) purchased materials and received services totalling RMB176,106,000 (equivalent to HK$212,348,000) (2020: RMB61,553,000 (equivalent to HK$69,259,000)) from related parties; and (ii) sold goods totalling RMB30,959,000 (equivalent to HK$37,330,000) (2020: RMB21,317,000 (equivalent to HK$23,986,000)) to related parties.

30 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2021		2020	
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment		**518**		713
Right-of-use assets		**4,455**		7,209
Investments in subsidiaries		**944,179**		944,179
		949,152		952,101
Current assets				
Dividends receivable	**130,336**		130,336	
Prepayments, deposits and other receivables	**1,779**		1,703	
Amounts due from subsidiaries	**83,580**		83,580	
Cash and cash equivalents	**39,127**		173,039	
	254,822		388,658	
Current liabilities				
Borrowings	**235,000**		150,000	
Lease liabilities	**2,809**		2,702	
Accruals and other payables	**9,294**		8,094	
Amounts due to subsidiaries	**367,174**		613,744	
	614,277		774,540	
Net current liabilities		**(359,455)**		(385,882)
Total assets less current liabilities		**589,697**		566,219
Non-current liabilities				
Lease liabilities	**1,801**		4,610	
	1,801		4,610	
NET ASSETS		**587,896**		561,609
Capital and reserves *(note 26(a))*				
Share capital		**66,741**		67,682
Reserves		**521,155**		493,927
TOTAL EQUITY		**587,896**		561,609

Approved and authorised for issue by the board of directors on 29 March 2022.

Qu Jiguang
Director

Su Xuejun
Director

31 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 26(b).

(b) After the end of the reporting period, the Group repurchased a total of 4,510,000 ordinary shares of the Group through the Stock Exchange at an aggregate consideration of approximately HK$16,267,000 (including HK$63,000 expenses directly attributable to the repurchase), and all such shares were cancelled in accordance with the Company Law of the Cayman Islands.

(c) On 9 March 2022, an indirect wholly-owned subsidiary of the Company (the "Purchaser") entered into the acquisition agreement with three individuals (the "Vendors") and Cangzhou Lingang Youyi Chemical Co., Ltd. (the "Target Company"), pursuant to which, amongst others, the Purchaser has agreed to purchase and the Vendors have agreed to sell the entirety of the equity interest in the Target Company at the total consideration of RMB55 million. The Target Company is principally engaged in the production and sales of methylamine which is one of the key raw materials for production of caffeine.

Upon completion of the agreement, the Target Company will become a subsidiary of the Company and its financial statements will be consolidated into the financial statements of the Group. Details of which are disclosed in the announcement of the Company dated 9 March 2022.

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

32 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2021, the directors consider the immediate parent and ultimate controlling party of the Group to be China Pharmaceutical Co., Ltd., which is incorporated in Samoa. This entity does not produce financial statements available for public use.

(Expressed in Hong Kong dollars unless otherwise indicated)

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to HKAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to HKAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1, *Classification of liabilities as current or non-current*	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, *Disclosure of accounting policies*	1 January 2023
Amendments to HKAS 8, *Definition of accounting estimates*	1 January 2023
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2023

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

FIVE YEARS FINANCIAL SUMMARY

	Year ended 31 December				
	2017	2018	2019	2020	**2021**
	(Note)	*(Note)*			
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Revenue	3,076,369	4,180,788	4,635,675	4,260,898	**5,356,763**
Profit before taxation	797,375	1,079,143	1,361,143	725,215	**948,397**
Profit attributable to equity shareholders	664,719	911,774	1,136,101	611,971	**785,533**

	As at 31 December				
	2017	2018	2019	2020	**2021**
	(Note)	*(Note)*			
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
ASSETS AND LIABILITIES					
Total assets	5,903,946	6,880,745	7,724,342	9,253,707	**10,708,720**
Total liabilities	(2,417,204)	(2,502,499)	(2,537,194)	(3,338,496)	**(4,216,012)**
Non-controlling interests	(11,384)	(139,814)	(200,726)	(263,175)	**(273,845)**
Equity attributable to equity shareholders	3,475,358	4,238,432	4,986,422	5,652,036	**6,218,863**

Note:

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