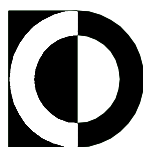


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## DAWNRAYS PHARMACEUTICAL (HOLDINGS) LIMITED

東瑞製葯（控股）有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 2348)

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

#### FINANCIAL HIGHLIGHTS

Unaudited	For the six months ended 30 June		
	2017	2016	Change
<b>Revenue (RMB'000)</b>	<b>491,056</b>	418,449	17.4%
<b>Gross Profit (RMB'000)</b>	<b>340,832</b>	255,703	33.3%
<b>Gross Profit Margin</b>	<b>69.4%</b>	61.1%	+8.3 percentage points
<b>Profit before tax (RMB'000)</b>	<b>186,309</b>	165,077	12.9%
<b>Profit for the period attributable to owners of the parent (RMB'000)</b>	<b>148,968</b>	131,480	13.3%
<b>Net Profit Margin</b>	<b>30.3%</b>	31.4%	-1.1 percentage points
<b>Earnings per share - basic (RMB)</b>	<b>0.1859</b>	0.1638	13.5%
<b>Interim dividend per share (HK\$)</b>	<b>0.03</b>	0.03	0.0%

#### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board (the "Board") of directors (the "Directors") of Dawnrays Pharmaceutical (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2017 (the "period"). These interim results have been reviewed by the audit committee of the Company.

#### INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.03 per share for the year ending 31 December 2017, approximately amounting to a total sum of HK\$23,805,000 (approximately equivalent to RMB20,373,000).

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**For the six months  
ended 30 June

	Notes	<b>2017</b> <b>(Unaudited)</b> <b>RMB'000</b>	2016 <b>(Unaudited)</b> <b>RMB'000</b>
<b>Revenue</b>	3	<b>491,056</b>	418,449
Cost of sales		<u><b>(150,224)</b></u>	<u>(162,746)</u>
<b>Gross profit</b>		<b>340,832</b>	255,703
Other income and gains	3	<b>13,713</b>	11,497
Selling and distribution expenses		<b>(102,392)</b>	(47,342)
Administrative expenses		<b>(40,012)</b>	(28,911)
Other expenses		<b>(24,159)</b>	(25,793)
Finance costs	4	<b>(13)</b>	(77)
Share of profits and losses of: Associates		<u><b>(1,660)</b></u>	<u>-</u>
<b>PROFIT BEFORE TAX</b>	5	<b>186,309</b>	165,077
Income tax expense	6	<u><b>(37,341)</b></u>	<u>(33,597)</u>
<b>PROFIT FOR THE PERIOD</b>		<u><b>148,968</b></u>	<u>131,480</u>
Attributable to: Owners of the parent		<u><b>148,968</b></u>	<u>131,480</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	8		
- basic, for profit for the period		<u><b>RMB0.1859</b></u>	<u>RMB0.1638</u>
- diluted, for profit for the period		<u><b>RMB0.1859</b></u>	<u>RMB0.1636</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2017 (Unaudited) RMB'000	2016 (Unaudited) RMB'000
<b>PROFIT FOR THE PERIOD</b>	<b><u>148,968</u></b>	<b><u>131,480</u></b>
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange differences	<u>(2,410)</u>	<u>649</u>
<b>OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX</b>	<b><u>(2,410)</u></b>	<b><u>649</u></b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<b><u>146,558</u></b>	<b><u>132,129</u></b>
Attributable to:		
Owners of the parent	<b><u><u>146,558</u></u></b>	<b><u><u>132,129</u></u></b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		544,976	566,321
Land use rights		39,650	40,175
Construction in progress		7,869	5,776
Intangible assets		25,205	24,909
Investments in associates		48,670	-
Deferred tax assets		<u>6,625</u>	<u>6,729</u>
Total non-current assets		<u>672,995</u>	<u>643,910</u>
<b>CURRENT ASSETS</b>			
Inventories	9	118,944	124,746
Trade and notes receivables	10	265,239	225,660
Prepayments, deposits and other receivables		380,626	220,958
Equity investments at fair value through profit or loss		8,154	7,794
Cash and bank		<u>534,453</u>	<u>663,296</u>
Total current assets		<u>1,307,416</u>	<u>1,242,454</u>
<b>CURRENT LIABILITIES</b>			
Trade and notes payables	11	93,227	87,938
Other payables and accruals		110,996	98,104
Interest-bearing bank loans		-	9,104
Income tax payable		<u>20,033</u>	<u>5,510</u>
Total current liabilities		<u>224,256</u>	<u>200,656</u>
Net current assets		<u>1,083,160</u>	<u>1,041,798</u>
<b>Total assets less current liabilities</b>		<u>1,756,155</u>	<u>1,685,708</u>
<b>NON-CURRENT LIABILITIES</b>			
Government grants		2,248	2,248
Deferred tax liabilities		<u>47,663</u>	<u>46,704</u>
Total non-current liabilities		<u>49,911</u>	<u>48,952</u>
<b>Net assets</b>		<u><u>1,706,244</u></u>	<u><u>1,636,756</u></u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(continued)*

	<b>30 June 2017 (Unaudited) RMB'000</b>	31 December 2016 (Audited) <i>RMB'000</i>
	<i>Notes</i>	
<b>EQUITY</b>		
<b>Equity attributable to owners of the parent</b>		
Issued capital	<b>84,776</b>	84,952
Treasury shares	<b>(92)</b>	(74)
Reserves	<b><u>1,621,560</u></b>	<u>1,551,878</u>
<b>Total equity</b>	<b><u><u>1,706,244</u></u></b>	<u><u>1,636,756</u></u>

## **NOTES:**

### **1. CORPORATE INFORMATION AND BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES**

#### **1.1 Corporate and Group Information**

Dawnrays Pharmaceutical (Holdings) Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 20 September 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and the principal place of business is located at Units 3001-02, 30/F, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong.

The Company and its subsidiaries (collectively referred to as the “Group”) underwent a reorganisation on 21 June 2003 to rationalise the Group’s structure in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), pursuant to which the Company became the holding company of the Group (the “Group Reorganisation”).

The shares of the Company were listed on the Main Board of the Stock Exchange on 11 July 2003.

The Group was principally engaged in the development, manufacture and sale of non-patented pharmaceutical medicines including intermediate pharmaceutical, bulk medicines and finished drugs. In the opinion of the directors, Fortune United Group Limited, a company incorporated in the British Virgin Islands, is the ultimate holding company of the Company.

#### **1.2 Basis of preparation**

These unaudited interim condensed consolidated financial statements for the six months ended 30 June 2017 (collectively defined as the “interim financial information”) have been prepared in accordance with International Accounting Standards (“IAS”) 34 Interim financial reporting and applicable disclosure requirements of the Rules Governing the listing of securities on the Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value.

The interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated. These interim condensed consolidated financial statements have not been audited. These interim condensed consolidated financial statements were approved and authorized for issue by the Board on 22 August 2017.

The interim financial information does not include all the information and disclosures required in the financial statements, and should be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards and Interpretations) as issued by the International Accounting Standards Board (“IASB”).

#### **1.3 CHANGES IN ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those in the Group’s annual financial statements for the year ended 31 December 2016, except for the adoption of the revised standards effective on 1 January 2017, noted below:

## 1. CORPORATE INFORMATION AND BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES *(Continued)*

### 1.3 CHANGES IN ACCOUNTING POLICIES *(continued)*

#### (a) Revised IFRSs adopted by the Group

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRS 12 included in <i>Annual Improvements 2014-2016 Cycle</i>	<i>Disclosure of Interests in Other Entities</i>

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

#### (b) Issued but not yet effective IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions<sup>1</sup></i>
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts<sup>1</sup></i>
IFRS 9	<i>Financial Instruments<sup>1</sup></i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>4</sup></i>
IFRS 15	<i>Revenue from Contracts with Customers<sup>1</sup></i>
Amendments to IFRS 15	<i>Classifications to IFRS 15 Revenue from Contracts with Customers<sup>1</sup></i>
IFRS 16	<i>Leases<sup>2</sup></i>
Amendments to IAS 40	<i>Transfers of Investment Property<sup>1</sup></i>
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration<sup>1</sup></i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments<sup>2</sup></i>
IFRS 17	<i>Insurance Contracts<sup>3</sup></i>
Amendments to IFRS 1 included in <i>Annual Improvements 2014-2016 Cycle</i>	<i>First-time Adoption of International Financial Reporting Standards<sup>1</sup></i>
Amendments to IAS 28 included in <i>Annual Improvements 2014-2016 Cycle</i>	<i>Investments in Associates and Joint Ventures<sup>1</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> No mandatory effective date yet determined but available for adoption

## 2. SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and has two reportable segments as follows:

- a) Manufacture and sale of intermediates and bulk medicines (the “intermediates and bulk medicines” segment)
- b) Manufacture and sale of finished drugs (including antibiotics finished drugs and non-antibiotics finished drugs) (the “finished drugs” segment)

Management monitors the operating results of these operating segments for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group’s profit before tax except that interest income, finance costs, government grants, dividend income, fair value gains/(losses) from the Group’s financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, cash and bank, equity investments at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following is an analysis of the Group’s revenue and results by operating segment for the period:

<b>Six months ended</b>	Elimination of			
<b>30 June 2017 (unaudited)</b>	Intermediates and bulk medicines	Finished drugs	intersegment sales	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Segment Revenue:</b>				
Sales to external customers	65,652	425,404	-	491,056
Intersegment sales	<u>13,068</u>	<u>2,521</u>	<u>(15,589)</u>	<u>-</u>
	78,720	427,925	(15,589)	<u>491,056</u>
<b>Segment Results</b>	(5,778)	246,831	-	241,053
<i>Reconciliation:</i>				
Unallocated gains				11,939
Corporate and other unallocated expenses				(66,670)
Finance costs				<u>(13)</u>
Profit before tax				<u>186,309</u>



## 2. SEGMENT INFORMATION *(continued)*

<b>Six months ended 30 June 2016 (unaudited)</b>	Intermediates and bulk medicines RMB'000	Finished drugs RMB'000	Elimination of intersegment sales RMB'000	Total RMB'000
<b>Segment Revenue:</b>				
Sales to external customers	94,406	324,043	-	418,449
Intersegment sales	<u>35,819</u>	<u>-</u>	<u>(35,819)</u>	<u>-</u>
	130,225	324,043	(35,819)	<u>418,449</u>
<b>Segment Results</b>	(6,793)	206,462	-	199,669
<b><u>Reconciliation:</u></b>				
Unallocated gains				11,329
Corporate and other unallocated expenses				(45,844)
Finance costs				<u>(77)</u>
Profit before tax				<u>165,077</u>

The following is an analysis of the Group's assets by operating segment:

<b>As at 30 June 2017 (unaudited)</b>	Intermediates and bulk medicines RMB'000	Finished drugs RMB'000	Total RMB'000
<b>Segment Assets:</b>	383,868	558,344	942,212
<b><u>Reconciliation:</u></b>			
Corporate and other unallocated assets			<u>1,038,199</u>
Total assets			<u>1,980,411</u>
<b>As at 31 December 2016 (audited)</b>	Intermediates and bulk medicines RMB'000	Finished drugs RMB'000	Total RMB'000
<b>Segment Assets:</b>	368,763	531,042	899,805
<b><u>Reconciliation:</u></b>			
Corporate and other unallocated assets			<u>986,559</u>
Total assets			<u>1,886,364</u>

### 3. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gains is as follows:

	<b>For the six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Revenue</b>		
Sale of goods	<u><b>491,056</b></u>	<u>418,449</u>
<b>Other income</b>		
Bank interest income	<b>9,330</b>	5,526
Dividend income from equity investments at fair value through profit or loss	<b>30</b>	29
Government grants	<b>1,389</b>	1,376
Foreign exchange gain	-	3,946
Others	<u><b>2,865</b></u>	<u>620</u>
	<u><b>13,614</b></u>	<u>11,497</u>
<b>Gains</b>		
Gain on disposal of equity investments at fair value through profit or loss	<u><b>99</b></u>	<u>-</u>
	<u><b>13,713</b></u>	<u>11,497</u>

### 4. FINANCE COSTS

	<b>For the six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Interest on bank loans wholly repayable within five years	<u><b>13</b></u>	<u>77</u>

## 5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	<b>For the six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Cost of inventories sold*	<b>150,224</b>	162,746
Depreciation	<b>25,982</b>	24,731
Recognition of land use rights **	<b>525</b>	521
Research and development costs:		
Amortisation of intangible assets ***	<b>251</b>	294
Current period expenditure	<b>18,136</b>	14,912
	<b>18,387</b>	15,206
Minimum lease payments under operating leases:		
Buildings	<b>438</b>	551
Employee benefit expense (including directors' and chief executive officer's remuneration) :		
Wages and salaries	<b>39,762</b>	33,915
Retirement benefits	<b>3,659</b>	3,844
Accommodation benefits	<b>1,740</b>	1,778
Other benefits	<b>6,586</b>	5,467
Equity-settled share option expense	<b>4,743</b>	6,009
	<b>56,490</b>	51,013
Foreign exchange differences, net	<b>2,857</b>	(3,946)
Reversal of impairment of property, plant and equipment	<b>(566)</b>	(262)
Write-down of inventories to net realisable value	<b>1,015</b>	8,817
Fair value (gains)/losses, net:		
Equity investments at fair value through profit or loss	<b>(907)</b>	408
Bank interest income	<b>(9,330)</b>	(5,526)
Loss on disposal of items of property, plant and equipment	<b>668</b>	159
Gain on disposal of equity investments at fair value through profit or loss	<b>(99)</b>	-

\* The depreciation of RMB21,161,000 (2016: RMB20,346,000) for the period is included in "Cost of inventories sold".

\*\* The recognition of land use rights for the period is included in "Administrative expenses" on the face of the condensed consolidated statement of profit or loss.

\*\*\* The amortisation of intangible assets for the period is included in "Other expenses" on the face of the condensed consolidated statement of profit or loss.

## 6. INCOME TAX

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
Current income tax charge	29,640	25,885
Adjustments in respect of current income tax in previous years	45	(9)
Deferred income tax	<u>7,656</u>	<u>7,721</u>
Total tax charge for the period	<u><u>37,341</u></u>	<u><u>33,597</u></u>

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period. Taxation for the subsidiaries in Mainland China is calculated on the estimated assessable profits for the period at the rates of tax prevailing in the locations in which the Group's subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

## 7. DIVIDENDS

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Dividend pertaining to the prior year declared in the six months ended 30 June	71,152	80,653
Interim – HK\$0.03 (2016: HK\$0.03) per ordinary share	<u><u>20,373</u></u>	<u><u>20,673</u></u>

On 22 August 2017, the Company declared an interim dividend for the year ending 31 December 2017, at HK\$0.03 per share, amounting to a total sum of approximately HK\$23,805,000 (approximately equivalent to RMB20,373,000).

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2017 is based on the profit for the period attributable to ordinary equity holders of the parent of RMB148,968,000 (2016: RMB131,480,000) and the weighted average number of 801,329,912 ordinary shares (2016: 802,880,044 ordinary shares) in issue during the period.

The calculation of diluted earnings per share for the period is based on the profit for the period attributable to ordinary equity holders of the parent of RMB148,968,000 (2016: RMB131,480,000) and the weighted average number of 801,329,912 ordinary shares (2016: 803,682,241 ordinary shares) in issue during the period after adjusting for the effect of dilutive options.

## 9. INVENTORIES

	<b>30 June 2017 (Unaudited) RMB'000</b>	31 December 2016 (Audited) <i>RMB'000</i>
At cost or net realisable value:		
Raw materials	<b>26,250</b>	24,353
Work in progress	<b>37,563</b>	35,011
Finished goods	<b>55,131</b>	65,382
	<b>118,944</b>	124,746

## 10. TRADE AND NOTES RECEIVABLES

An aged analysis of the trade receivables and notes receivable as at 30 June 2017, net of provisions, is as follows:

	<b>30 June 2017 (Unaudited) RMB'000</b>	31 December 2016 (Audited) <i>RMB'000</i>
Trade receivables		
Outstanding balances with ages:		
Within 90 days	<b>126,163</b>	108,463
Between 91 and 180 days	<b>9,052</b>	2,125
Between 181 and 270 days	<b>4,850</b>	96
Between 271 and 360 days	<b>84</b>	-
	<b>140,149</b>	110,684
Notes receivable	<b>125,090</b>	114,976
	<b>265,239</b>	225,660

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within one month of issue, except for major customers, where the terms are extended to three months.

## 11. TRADE AND NOTES PAYABLES

An aged analysis of the trade payables and notes payable as at 30 June 2017 is as follows:

	<b>30 June 2017 (Unaudited) RMB'000</b>	31 December 2016 (Audited) <i>RMB'000</i>
Outstanding balances with ages:		
Within 90 days	<b>70,905</b>	33,765
Between 91 and 180 days	<b>21,313</b>	53,238
Between 181 and 270 days	<b>222</b>	228
Between 271 and 360 days	<b>72</b>	3
Over one year	<b>715</b>	704
	<b><u>93,227</u></b>	<u>87,938</u>

The trade payables are non-interest-bearing and are normally settled on 90-day terms. The carrying amounts of the trade and notes payables approximate to their fair values.

## **CHAIRMAN’S STATEMENT**

### **RESULTS**

The Group recorded revenue of approximately RMB491,056,000 for the six months ended 30 June 2017 (2016: RMB418,449,000), representing an increase of 17.4% compared to the same period of 2016. Profit attributable to the owners of the parent was approximately RMB148,968,000 (2016: RMB131,480,000), representing an increase of 13.3% over the same period of 2016.

The increase in turnover and profit was mainly due to the remained good trend of sales of the Group’s specific medicines.

### **BUSINESS REVIEW AND PROSPECT**

Upon rapid growth driven by the governmental medical reform in the early stage, recently, China’s medical market witnessed a slow growth year by year; and only all economic indicators of the market remained a growth trend basically. In the first half of 2017, the Group business development maintained stable and the sales amount of all main varieties of the specific medicines met the targeted requirements. Among of them, the products needed to be taken back due to the cancellation of the master agency agreement as to “Leiyide” (Entecavir Dispersible Tablets) in the same period last year were sold out under the continuous efforts of the Group’s marketing and sales team. In addition, the Group’s marketing and sales management personnel also focused on adjustment of sales structure of such products, so as to expand the market more extensively and deeply.

Since China implemented Measures for Management of Clinical Application of Antibacterials (抗菌藥物臨床應用管理辦法) in 2011, China has witnessed a shrink in the market capacity of antibiotics, and a slow growth for several consecutive years. Compared to the peak period, although Cephalosporins remained the first major category in the anti-infective drugs market, there was a limited growth space for the total market amount, and market share dropped significantly. Driven by rigid demand, the Cephalosporins market was gradually stabilized, but market competition remained extremely fierce. During the period, the Group did not achieve an operation result in compliance with its expected requirements due to its production workshop stoppage for adjustment and reconstruction. In the first half of 2017, the Group still recorded a loss in its Cephalosporins intermediates and bulk medicines business, but the loss decreased when compared with the same period of last year.

During the review period, the Group constantly discussed the feasibility of related resolutions to respond to the change in the surrounding environment of individual factories, and would release details in an appropriate time upon determination of the resolutions.

AD Pharmaceuticals Co., Ltd. (「AD Pharma」), which was established by Dawnrays Biotechnology Capital (Asia) Limited, the Company's wholly-owned subsidiary, and Akeso Biopharma Inc., obtained approval for review from Center for Drug Evaluation of China Food and Drug Administration in May 2017 of AD Pharma's registration application of the first class new drug of monoclonal antibody drug - AK102, for lowering cholesterol levels. In addition, all work of AD Pharma's another drug -AK109 - under research was also actively underway.

Looking forward to China's medical market, under the overall layout of China's industrial development, its market will remain stable and the industry will still see a lot of development opportunities. However, in recent years, China's medical policies released and measures implemented as to medical bidding, fee growth control, medical insurance payment and many other aspects made the drug prices were under considerable pressures. On the other hand, pharmaceutical companies must assume all kinds of additional costs so as to meet the requirements of overall upgrade of China's pharmaceutical industry. Such contrast tendency between income and cost imposes a heavy financial burden on many companies. The Group, as to its business management, always implements a rigorous financial policy and is committed to maintain a healthy cash flow. Thus, the Group will have sufficient resources to respond to all challenges brought by China's pharmaceutical industry upgrades.

The market will see all kinds of challenges. Under such operation environment, in order to seek opportunities for sustainable development, as to the product structure updates and activation, the Group will invest more resources for innovation and R&D, so as to, on one hand, consolidate and keep improving the production technologies of the existing salable products to improve the product quality; and on the other hand, make every effort to accelerate the advancement of the R&D process of all varieties under research, so that new varieties will be launched into market in an appropriate time as scheduled to intensify the Group's profit base. Furthermore, as to the human resources, market construction, and many other aspects, the Group also will continue to implement different policies and programs and invest more resources to meet its development needs.

Meanwhile, the Group will allocate the funds and resources needed for business development with respect to its operation aspect. In addition, under the premise that the Directors think fit, the Group will also apply funds to increase the investment value of the shareholders. During the period, the Group used funds to repurchase the Company's shares in a move to reflect the Company's potential value and the Board's vision of the long-term development of the Group's business. The Group will continue to monitor related situations and repurchase the Company's shares in a premise it thinks fit, with an aim to create long-term value growth for its shareholders.



## MANAGEMENT DISCUSSION AND ANALYSIS

### REVIEW OF OPERATIONS

During the six months ended 30 June 2017, the Group recorded a turnover of RMB491,056,000, with an increase of RMB72,607,000 over the same period of last year, representing an increase of 17.4%; of which, the sales amount of intermediates and bulk medicines was RMB65,652,000, representing a decrease of 30.5% compared with the same period of last year, mainly due to workshop stoppage for adding equipment for a preparation for producing high value added products. The sales amount of finished drugs reached approximately RMB425,404,000, representing an increase of 31.3% compared with the same period of last year, mainly attributable to further optimization of sales resources and further improvement of market control and management. During the period, the Group and chain pharmacy stores of China's top 100 achieved a breakthrough on mutual strategic cooperation on sales of "Anneizhen" (Amlodipine Besylate Tablets). Under the effective management of the management team, and via multi-channel and multi-level with multi-form of active promotion of academic promotion program of "Leiyide" (Entecavir Dispersible Tablets) across China, it has got another 500 more hospital terminals. It also has got another 200 more hospital terminals for "Anneixi" (Losartan Potassium and Hydrochlorothiazide Tablets), too, with a considerable growth in sales.

As at 30 June 2017, the Group's product research and development status is as follows:

- a total of 28 projects under research, covering therapeutic areas including circulatory system, digestive system, endocrine system and anti-virus drugs etc., of which, 16 projects were new product researches, and 6 projects had been put into clinical trial;
- quality consistency assessment was processing for 8 varieties, of which, 4 varieties had been put into bioequivalency (BE) clinical research;
- there was 1 Phase IV clinical research;
- supplementary research for production of Cefoperzone Sodium and Tazobactam Sodium for Injection was completed and declaration for production was submitted;
- supplementary research for production of Esomeprazole Sodium for Injection was completed and declaration for production was under preparation.

During the period, the Group kept a good production quality overall. In order to constantly improve risk control ability and the system as to quality management, ensure drug quality, safeguard the safety of drug use by human, and meet the needs of different domestic and foreign customers, the Group organized factories to conduct GMP self-inspection work and strengthen on-site round inspection and whole-process control with respect to quality management. Meanwhile, the Group also invested all kinds of resources to construct and complete lab network system, and further advance departmental management computerization, so as to ensure compliance with the strict requirements of China and international laws and regulations with respect to data completeness. As of 30 June 2017, the Group successfully passed the adverse drug reaction reporting and monitoring inspection and GMP certification tracking inspection by Jiangsu Provincial Food and Drug Administration. In addition, the Group also completed GMP inspection as per the requirements of PIC/S standards together with GSK with respect to the product as to which both sides cooperated for a long time.

As to the human resources, the Group has been attaching great importance to the talent pool construction and development and focusing on constructing a reliable, disciplined, energetic, cohesive and innovative team. Centered on the Group's development strategies and layout, during the period, the Group focused on talent system construction, especially development of talent standards and planning; and echelon building of talents, so as to implement a differentiated management mode.

## **NEW PRODUCTS AND PATENT LICENSING**

- (1) During January to June of 2017, a total of 4 declarations for registration were filed with Jiangsu Provincial Food and Drug Administration (including 2 supplementary applications and 2 applications for re-registration); meanwhile, a total of 7 approval documents were obtained, including 2 re-registration approval documents and 5 approval documents for supplementary applications.
- (2) One patent certificate was obtained.

An invention patent notice was granted on 30 June 2017 as to a kind of Rosuvastatin Calcium Tablets and its preparation process (patent No.:201510256312.3) and the invention patent certificate was obtained on 28 July 2017.

## **HONORS AWARDED IN 2017**

1. Suzhou Dawnrays Pharmaceutical Co., Ltd. (R&D Center) was named as one of the first batch of foreign-funded R&D centers that meet the rebate policy as to purchase of domestically manufactured equipment and also meet the import tax policy.
2. Suzhou Dawnrays Pharmaceutical Co., Ltd. was named as "2016 Consumer's Satisfactory Unit" by Suzhou City Consumer Rights and Interests Protection Committee.

## **FINANCIAL REVIEW**

### **SALES AND GROSS PROFIT**

For the six months ended 30 June 2017, the Group recorded a turnover of approximately RMB491,056,000, representing an increase of RMB72,607,000, or 17.4%, compared with the corresponding period of last year.

During the first half of 2017, sales of system specific medicines increased by approximately RMB87,571,000, representing an increase of 30.2% compared with the corresponding period of last year. Sales of the cephalosporin antibiotics product line decreased by approximately RMB16,967,000, representing a decrease of 13.3% compared with the corresponding period of last year; sales amount of intermediates and bulk medicines decreased by 30.5% compared with the corresponding period of last year.

Sales amount of finished drugs, comprising system specific medicines, powder for injection and tablets of cephalosporin and other oral solid-dosage-forms of antibiotics, reached approximately RMB425,404,000. Of which, sales amount of system specific medicines accounted for approximately 88.7% of sales of finished drugs. Sales amount of cephalosporin powder for injection increased by 54.5% compared with the corresponding period of last year, and sales amount of oral cephalosporin decreased by 10.9% compared with the corresponding period of last year.

Export sales amount accounted for approximately 14.8% of the total turnover. The export destinations mainly included countries and regions such as Hong Kong, Switzerland, South Korea and Russia etc.

Gross profit was approximately RMB340,832,000 which was increased by RMB85,129,000 compared with the corresponding period of last year. Gross profit margin was 69.4% which was increased by 8.3 percentage points compared with 61.1% as in the corresponding period of last year.

## TABLE OF TURNOVER ANALYSIS

PRODUCT	TURNOVER (RMB'000)			SALES BREAKDOWN (%)		
	For the six months ended 30 June			For the six months ended 30 June		
	2017	2016	Changes	2017	2016	Percentage points Changes
Intermediates and Bulk Medicines	<b>65,652</b>	94,406	-28,754	<b>13.4</b>	22.6	-9.2
Finished Drugs	<b>425,404</b>	324,043	101,361	<b>86.6</b>	77.4	9.2
Overall	<b>491,056</b>	418,449	72,607	<b>100.0</b>	100.0	0.0

## EXPENSES

During the period, the total expenses incurred were approximately RMB166,576,000, equivalent to 33.9% of turnover (2016:24.4%), an increase of 9.5 percentage points compared with the corresponding period of last year. The total expenses increased by approximately RMB64,453,000 compared with the corresponding period of last year mainly attributed to the increase in distribution expenses and research and development costs.

## **SEGMENT PROFIT**

For the six months ended 30 June 2017, segment results of intermediates and bulk medicines segment recorded losses of approximately RMB5,778,000 representing a decrease of loss of RMB1,015,000 compared with segment results loss of RMB6,793,000 as in the first half of 2016. The segment profit of finished drugs segment was approximately RMB246,831,000, which was increased by approximately RMB40,369,000 when compared with the segment profit of RMB206,462,000 as in the first half of 2016.

## **SHARE OF PROFITS AND LOSSES OF ASSOCIATE**

During the period, Dawnrays Biotechnology Capital (Asia) Ltd.(“Dawnrays Biotech”), the Group’s subsidiary, invested first lot registered capital of RMB50,330,000 into AD Pharma according to the joint venture agreement which proposed Dawnrays Biotech to invest totally RMB150,000,000 to have 35% share interest in AD Pharma. For the six months ended 30 June 2017, the Group’s share of loss of AD Pharma was RMB1,660,000.

## **PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT**

For the six months ended 30 June 2017, profit attributable to owners of the parent amounted to approximately RMB148,968,000, equivalent to an increase of RMB17,488,000 or 13.3% compared with the corresponding period of last year. The increase was mainly attributed by the substantial growth in sales of finished products.

## **ANALYSIS ON THE RETURN ON ASSETS**

As at 30 June 2017, net assets attributable to owners of the parent were approximately RMB1,706,244,000. The return on net assets, which is defined as the profit attributable to owners of the parent divided by net assets attributable to owners of the parent, was 8.7% (2016: 8.6%). The current ratio and quick ratio was 5.8 and 5.3 respectively. Turnover days for trade receivables were approximately 46 days. Turnover days for trade receivables including notes receivables were approximately 90 days. Turnover days for inventory were approximately 146 days. Turnover days for trade receivables and turnover days for inventory decreased when compared with the end of last year. It was mainly due to the trade receivables from increased sales were received on time and decrease in inventory.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2017, the Group held cash and bank balance approximately RMB534,453,000 (as at 31 December 2016: RMB663,296,000). In addition, in order to operate the idle funds more effectively and improve returns, the Group had placed total RMB370,000,000 on principal-preservation type of structured deposits with interest rates at 2.85%-4.10% p.a. to several creditworthy banks in Mainland China.

During the period, the net cash flows from operating activities was approximately RMB172,638,000 (2016: RMB182,820,000). Net cash flows used in investing activities was approximately RMB210,536,000 (2016: RMB11,093,000). Net cash flows used in financing activities was approximately RMB89,617,000 (2016: net cash flow in RMB30,848,000).

As at 30 June 2017, the Group had aggregate bank facilities of approximately RMB919,143,000 (as at 31 December 2016: RMB724,397,000), of which, bank facilities of HK\$22,000,000 were secured by corporate guarantee of the Company. As at 30 June 2017, the Group did not have any bank loans, the debt ratio (defined as sum of interest-bearing bank loans over total assets) of the Group was 0% (as at 31 December 2016: 0.5%).

As at 30 June 2017, the Group had inventory balance approximately RMB118,944,000 (as at 31 December 2016: RMB124,746,000).

As at 30 June 2017, the Group's contracted but not provided capital commitments amounted to approximately RMB3,081,000 (as at 31 December 2016: RMB3,060,000), which mainly derived from the sewage treatment works of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. The Group has sufficient financial and internal resources to bear the capital expenditure.

Save as aforesaid disclosure and the investment in subsidiaries and associate company, the Group had no significant external investments or material acquisitions or disposal of subsidiaries and associated companies during the period.

## **FOREIGN EXCHANGE AND TREASURY POLICIES**

The Group's substantial business activities, assets and liabilities are denominated in Renminbi, the risk derived from the foreign exchange to the Group is not high, except for the Group's pays dividends in Hong Kong dollars. Therefore, the foreign exchange risks are primarily with respect to Hong Kong Dollars.

The treasury policy of the Group is to manage any risk of foreign exchange or interest rate, if any, only if it will potentially impose a significant impact on the Group. The Group continues to observe the foreign exchange and interest rate market, and may hedge against foreign currency risk with foreign exchange forward contracts and interest rate risk with interest rate swap contracts if necessary.

## **STAFF AND REMUNERATION POLICY**

As at 30 June 2017, the Group employed 842 employees and the total remuneration was approximately RMB56,490,000 (2016: RMB51,013,000). The Group regards human resources as the most valuable assets and truly understands the importance of attracting and retaining high-performance employees. The remuneration policy is generally based on the references of market salary index and individual qualifications. The Group provides its employees with other fringe benefits, including defined contribution retirement schemes, share option scheme and medical coverage. The Group also offers some of its employees stationed in the PRC with dormitory accommodation.

## CHARGES ON ASSETS

As at 30 June 2017, the Group's assets with carrying amount of approximately RMB30,669,000 (as at 31 December 2016: RMB31,815,000) were pledged to bank to secure bank facilities granted to its subsidiary.

## CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no material contingent liabilities.

## PLANS FOR SIGNIFICANT INVESTMENTS AND EXPECTED SOURCE OF FUNDING

Save for those disclosed above in connection with investment in associate under the section "Share of Profit and Losses of Associate" and capital commitments under the section "Liquidity and Financial Resources", the Group does not have any plan for material investments or acquisition of capital assets.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

For the six months period ended 30 June 2017, the Company repurchased 3,492,000 shares of the Company's listed securities on the Stock Exchange at an aggregate consideration of HK\$16,126,000 before expenses. The repurchases were effected by the Directors for the enhancement of shareholder value in the long term. During the period, 82,000 treasury shares and 2,444,000 repurchased shares were cancelled. The remaining 1,048,000 repurchased shares were cancelled on 31 July 2017.

The monthly breakdown of shares repurchased during the period was as follows:

Month of Repurchase	Number of shares repurchased	The highest price paid per share (HK\$)	The lowest price paid per share (HK\$)	Aggregate Consideration (HK\$)
January 2017	420,000	4.74	4.45	1,918,000
June 2017	3,072,000	5.02	4.34	14,208,000
Total	<u>3,492,000</u>			<u>16,126,000</u>

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased redeemed or sold any of the Company's listed securities for the six months ended 30 June 2017.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

To the best knowledge, information and belief of the Directors, the Company has complied with the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd. (the “Listing Rules”) during the six months period ended 30 June 2017, except for the following deviation:

### **1. Code Provision A.6.7 of the CG Code -Attendance of Non-executive directors at general meeting**

Other than one Independent Non-executive Director who was not in position to attend the annual general meeting of the Company held on 25 May 2017 (the “2017 AGM”) due to an overseas commitment, all Non-executive Directors (including Independent Non-executive Directors) attended the 2017 AGM.

## **UPDATES ON DIRECTORS’ INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES**

Mr. Pan Xue Tian, an independent non-executive director of the Company retired as the Company’s independent non-executive director, the chairman of Remuneration Committee and the member of Audit Committee and Nomination Committee with effect from 1 July 2017. Mr. Ede, Ronald Hao Xi was re-designated as the Company’s independent non-executive director, the chairman of Remuneration Committee and the member of Audit Committee and Nomination Committee. Details of the above change were set out in the announcement of the Company dated 29 June 2017.

Mr. Choi Tat Ying Jacky, an independent non-executive director of the Company, was an executive director of China Polymetallic Mining Limited (a company listed on the Main Board of the Stock Exchange of Hong Kong Limited) from 15 May 2017 to 6 June 2017.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as the Company’s code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code, throughout the six months period ended 30 June 2017.

## AUDIT COMMITTEE

The Company has an Audit Committee which was established in compliance with Rule 3.21 of the Listing Rules to oversee the Group's financial reporting system, risk management and internal control systems. As at the date of this announcement, the Audit Committee's chairman was Mr. Choi Tat Ying Jacky, Mr. Lo Tung Sing Tony and Mr. Ede, Ronald Hao Xi were the committee's members, all of them are independent non-executive directors of the Company.

The unaudited interim condensed consolidated financial statements of the Company for the six months ended 30 June 2017 have been reviewed by the audit committee before making recommendation to the Board for approval.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 20 September 2017 to Thursday, 21 September 2017 (both days inclusive), for the purpose of ascertaining entitlement to the Company's interim dividend, during which period no transfer of shares will be registered.

The record date for the purpose of determining shareholders' entitlement to the interim dividend is Tuesday, 19 September 2017. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 19 September 2017. Dividend warrants will be despatched to shareholders on or about Thursday, 28 September 2017.

## APPRECIATION

I would like to take this opportunity to express my appreciation for the support and coordination from the Company's shareholders, Directors and the Group's business partners, management personnel and all staff for my work.

By Order of the Board

**Li Kei Ling**

*Chairman*

Hong Kong, 22 August 2017

*As at the date of this announcement, the Board of the Company comprises three Executive Directors, namely Ms. Li Kei Ling, Mr. Hung Yung Lai and Mr. Li Tung Ming; one Non-executive Director namely Mr. Leung Hong Man; three Independent Non-executive Directors, namely Mr. Choi Tat Ying Jacky, Mr. Lo Tung Sing Tony and Mr. Ede, Ronald Hao Xi.*