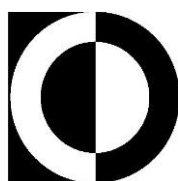


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**DAWNRAYS PHARMACEUTICAL (HOLDINGS) LIMITED**

**東瑞製葯(控股)有限公司**

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

**(Stock Code: 2348)**

**ANNOUNCEMENT OF THE ANNUAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**RESULTS HIGHLIGHTS**

	For the year ended 31 December		Changes
	2017	2016	
Revenue (RMB'000)	882,483	824,351	7.1%
Gross profit (RMB'000)	561,549	511,479	9.8%
Gross profit margin (%)	63.6%	62.0%	+1.6 percentage points
Profit before tax (RMB'000)	365,703	333,299	9.7%
Profit for the year (RMB'000)	292,978	265,917	10.2%
Net profit margin (%)	33.2%	32.3%	+0.9 percentage points
Earnings per share attributable to ordinary equity holders of the parent-basic (RMB)	0.3674	0.3314	10.9%
Proposed final dividend per share (HK\$)	0.12	0.10	20.0%

The board (the “Board”) of the directors (the “Directors”) of Dawnrays Pharmaceutical (Holdings) Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2017 (the “reporting period”) together with the comparative amounts for 2016 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2017

	Notes	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
<b>REVENUE</b>	4	882,483	824,351
Cost of sales		<u>(320,934)</u>	<u>(312,872)</u>
<b>Gross profit</b>		561,549	511,479
Other income and gains	4	30,372	24,425
Selling and distribution expenses		(88,086)	(98,895)
Administrative expenses		(82,491)	(64,625)
Other expenses		(48,946)	(38,928)
Finance costs	5	(13)	(157)
Share of profits and losses of:			
Associates		<u>(6,682)</u>	<u>-</u>
<b>PROFIT BEFORE TAX</b>	6	365,703	333,299
Income tax expense	7	<u>(72,725)</u>	<u>(67,382)</u>
<b>PROFIT FOR THE YEAR</b>		<u>292,978</u>	<u>265,917</u>
Attributable to:			
Owners of the parent		<u>292,978</u>	<u>265,917</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	9		
Basic, for profit for the year		<u>RMB0.3674</u>	<u>RMB0.3314</u>
Diluted, for profit for the year		<u>RMB0.3674</u>	<u>RMB0.3312</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2017

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
<b>PROFIT FOR THE YEAR</b>	<u>292,978</u>	<u>265,917</u>
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:		
Exchange differences	(4,794)	4,373
<b>OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX</b>	<u>(4,794)</u>	<u>4,373</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<u><u>288,184</u></u>	<u><u>270,290</u></u>
Attributable to:		
Owners of the parent	<u><u>288,184</u></u>	<u><u>270,290</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB '000	2016 RMB '000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		520,860	566,321
Land use rights		39,134	40,175
Construction in progress		9,991	5,776
Intangible assets		35,748	24,909
Investments in associates		43,648	-
Deferred tax assets		4,688	6,729
Total non-current assets		<u>654,069</u>	<u>643,910</u>
<b>CURRENT ASSETS</b>			
Inventories		121,133	124,746
Trade and notes receivables	10	313,214	225,660
Prepayments, deposits and other receivables		472,975	220,958
Equity investments at fair value through profit or loss		8,743	7,794
Cash and bank		611,077	663,296
Total current assets		<u>1,527,142</u>	<u>1,242,454</u>
<b>CURRENT LIABILITIES</b>			
Trade and notes payables	11	143,404	87,938
Other payables and accruals		160,997	98,104
Interest-bearing bank loans		-	9,104
Income tax payable		15,648	5,510
Total current liabilities		<u>320,049</u>	<u>200,656</u>
NET CURRENT ASSETS		<u>1,207,093</u>	<u>1,041,798</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,861,162</u>	<u>1,685,708</u>
<b>NON-CURRENT LIABILITIES</b>			
Government grants		1,878	2,248
Deferred tax liabilities		53,126	46,704
Total non-current liabilities		<u>55,004</u>	<u>48,952</u>
<b>Net assets</b>		<u>1,806,158</u>	<u>1,636,756</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital		84,197	84,952
Treasury shares		-	(74)
Reserves		1,721,961	1,551,878
<b>Total equity</b>		<u>1,806,158</u>	<u>1,636,756</u>

Notes:

## 1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations) as issued by the International Accounting Standards Board (“IASB”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss that have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and 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 to IFRSs 2014-2016 Cycle</i>	<i>Disclosure of Interests in Other Entities: Clarification of the Scope of IFRS 12</i>

None of the above amendments to IFRSs has had a significant financial effect on these financial statements.

## 3. SEGMENT INFORMATION

For management purposes, the Group is organised 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.

Segment liabilities exclude interest-bearing bank loans, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities 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.

### 3. SEGMENT INFORMATION (continued)

Year ended			Elimination of	
31 December 2017	Intermediates and bulk medicines <i>RMB'000</i>	Finished drugs <i>RMB'000</i>	intersegment sales <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue:</b>				
Sales to external customers	156,882	725,601	-	882,483
Intersegment sales	37,671	-	(37,671)	-
	<u>194,553</u>	<u>725,601</u>	<u>(37,671)</u>	<u>882,483</u>
<b>Segment results</b>	(5,355)	488,211	-	482,856
<i>Reconciliation:</i>				
Unallocated gains				25,946
Corporate and other unallocated expenses				(143,086)
Finance costs				(13)
Profit before tax				<u>365,703</u>

Year ended			Elimination of	
31 December 2016	Intermediates and bulk medicines <i>RMB'000</i>	Finished drugs <i>RMB'000</i>	intersegment sales <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue:</b>				
Sales to external customers	163,586	660,765	-	824,351
Intersegment sales	50,028	-	(50,028)	-
	<u>213,614</u>	<u>660,765</u>	<u>(50,028)</u>	<u>824,351</u>
<b>Segment results</b>	(14,489)	419,905	-	405,416
<i>Reconciliation:</i>				
Unallocated gains				23,598
Corporate and other unallocated expenses				(95,558)
Finance costs				(157)
Profit before tax				<u>333,299</u>

### 3. SEGMENT INFORMATION (continued)

As at 31 December 2017	Intermediates and bulk medicines <i>RMB'000</i>	Finished drugs <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment assets:</b>	432,066	560,628	992,694
<u>Reconciliation:</u>			
Corporate and other unallocated assets			<u>1,188,517</u>
Total assets			<u><u>2,181,211</u></u>
<b>Segment liabilities:</b>	114,929	125,182	240,111
<u>Reconciliation:</u>			
Corporate and other unallocated liabilities			<u>134,942</u>
Total liabilities			<u><u>375,053</u></u>
As at 31 December 2016	Intermediates and bulk medicines <i>RMB'000</i>	Finished drugs <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment assets:</b>	368,763	531,042	899,805
<u>Reconciliation:</u>			
Corporate and other unallocated assets			<u>986,559</u>
Total assets			<u><u>1,886,364</u></u>
<b>Segment liabilities:</b>	72,345	65,146	137,491
<u>Reconciliation:</u>			
Corporate and other unallocated liabilities			<u>112,117</u>
Total liabilities			<u><u>249,608</u></u>



### 3. SEGMENT INFORMATION (continued)

#### Geographical information

##### (a) Revenue from external customers

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	759,088	723,982
Other countries	<u>123,395</u>	<u>100,369</u>
	<u>882,483</u>	<u>824,351</u>

The revenue information above is based on the locations of the customers.

##### (b) Non-current assets

The Group's operations are substantially based in Mainland China and 95% of the non-current assets, excluding deferred tax assets and investments in associates, of the Group are located in Mainland China. Therefore, no further analysis of geographical information is presented.

#### 4. REVENUE, OTHER INCOME AND GAINS

Revenue, 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:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
<b><u>Revenue</u></b>		
Sale of goods	882,483	824,351
<b><u>Other income</u></b>		
Bank interest income	21,284	13,185
Dividend income from equity investments at fair value through profit or loss	346	367
Gross rental income	2,241	309
Foreign exchange differences	-	6,966
Government grants	2,957	2,580
Others	719	515
	27,547	23,922
<b><u>Gains</u></b>		
Gain on sales of disposed goods	1,046	-
Gain on disposal of equity investments at fair value through profit or loss	304	101
Fair value gains, net: Equity investments at fair value through profit or loss	1,475	402
	2,825	503
	30,372	24,425

#### 5. FINANCE COSTS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Interest on bank loans wholly repayable within five years	13	157

## 6. PROFIT BEFORE TAX

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

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold*	317,544	310,144
Depreciation	51,974	51,988
Recognition of land use rights**	1,041	1,041
Research and development costs:		
Amortisation of intangible assets***	460	596
Current year expenditure	35,189	26,132
	<u>35,649</u>	<u>26,728</u>
Minimum lease payments under operating leases:		
Buildings	289	984
Auditors' remuneration	1,458	1,388
Employee benefit expense (including directors' and chief executive officer's remuneration):		
Wages and salaries	87,225	64,799
Equity-settled share option expense	8,511	11,423
Retirement benefits	7,343	7,331
Accommodation benefits	3,621	3,549
Other benefits	13,915	12,089
	<u>120,615</u>	<u>99,191</u>
Foreign exchange differences, net	6,289	(6,966)
Impairment of property, plant and equipment	-	755
Write-down of inventories to net realisable value	2,058	8,087
Fair value gains, net:		
Equity investments at fair value through profit or loss	(1,475)	(402)
Bank interest income	(21,284)	(13,185)
Loss on disposal of items of property, plant and equipment	375	36
Gain on disposal of equity investments at fair value through profit or loss	(304)	(101)

\* The depreciation of RMB42,160,000 for the year is included in "Cost of inventories sold".

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

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

## 7. INCOME TAX

The major components of income tax expense for the years ended 31 December 2017 and 2016 are:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
<i>Current income tax</i>		
Current income tax charge	64,262	61,028
<i>Deferred income tax</i>	8,463	6,354
	<hr/>	<hr/>
Total tax charge for the year	<u>72,725</u>	<u>67,382</u>

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gain or appreciation shall apply to the Company or its operations. The undertaking for the Company is for a period of 20 years from 8 October 2002. Accordingly, the Company is not subject to tax.

The subsidiary incorporated in the British Virgin Islands (the “BVI”) is not subject to income tax, as this subsidiary does not have a place of business (other than a registered office only) or carry out any business in the BVI.

The Hong Kong subsidiaries are subject to tax at a statutory corporate income tax rate of 16.5% (2016: 16.5%) under the income tax rules and regulations of Hong Kong. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in its respective Hong Kong subsidiaries during the year (2016: Nil).

According to the PRC Enterprise Income Tax Law effective from 1 January 2008, the Mainland China Subsidiaries are all subject to income tax at the rate of 25% on their respective taxable income.

On 21 October 2008, Suzhou Dawnrays Pharmaceutical Co., Ltd. (“Suzhou Dawnrays Pharmaceutical”) was qualified as a High-New Technology Enterprise (“HNTE”) of Jiangsu Province. As a result, Suzhou Dawnrays Pharmaceutical had been entitled to a concessionary rate of income tax at 15% for three years commencing on 1 January 2008. During the years ended 31 December 2011, 31 December 2014 and 31 December 2017, Suzhou Dawnrays Pharmaceutical renewed, for every three years, the qualification of the HNTE of Jiangsu Province. As a result, Suzhou Dawnrays Pharmaceutical was continuously entitled to a concessionary rate of income tax at 15% commencing on 1 January 2011.

All other subsidiaries in Mainland China were subject to the corporate income tax rate of 25% in 2017.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

## 7. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the country or jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, are as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Accounting profit before income tax	<u>365,703</u>	<u>333,299</u>
At the PRC's statutory income tax rate of 25% (2016: 25%)	91,426	83,325
Tax effect of profits entitled to tax concession or lower tax rate enacted by local authority	(37,161)	(34,499)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	15,291	13,848
Adjustments in respect of current income tax of previous years	79	(9)
Expenses not deductible for tax	3,439	3,120
Tax credit for qualified research and development expense	(2,347)	(1,747)
Tax losses not recognised	3,152	3,378
Tax losses utilised from previous periods	<u>(1,154)</u>	<u>(34)</u>
At the effective income tax rate of 19.89% (2016: 20.22%)	<u>72,725</u>	<u>67,382</u>

## 8. DIVIDENDS

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Interim – HK\$0.03 (2016: HK\$0.03) per ordinary share	20,239	20,735
Proposed final – HK\$0.12 (2016: HK\$0.10) per ordinary share	<u>76,826</u>	<u>71,082</u>
	<u>97,065</u>	<u>91,817</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

**9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT**

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 797,416,901 (2016: 802,423,749) in issue during the year.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent	292,978	265,917
	<hr/>	<hr/>
	<u>Number of shares</u>	
	2017	2016
	Thousands	Thousands
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	797,417	802,424
Effect of dilution – weighted average number of ordinary shares:		
Share options	-	557
Weighted average number of ordinary shares adjusted for the effect of dilution	797,417	802,981
	<hr/>	<hr/>

## 10. TRADE AND NOTES RECEIVABLES

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade receivables	184,853	111,121
Impairment	-	(437)
	<u>184,853</u>	<u>110,684</u>
Notes receivable	128,361	114,976
	<u>313,214</u>	<u>225,660</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three months for major customers. Each customer has a credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to manage credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and notes receivables are non-interest-bearing.

An aging analysis of the trade receivables as at the end of the reporting period, net of provisions, is as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Trade receivables		
Outstanding balances with ages:		
Within 90 days	168,676	108,463
Between 91 and 180 days	13,218	2,125
Between 181 and 270 days	2,845	96
Between 271 and 360 days	30	-
Over one year	84	-
	<u>184,853</u>	<u>110,684</u>

The aging analysis of the trade receivables that are not considered to be impaired is as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Neither past due nor impaired	168,676	108,463
Less than three months past due	13,218	2,125
Over three months past due	2,959	96
	<u>184,853</u>	<u>110,684</u>

## 10. TRADE AND NOTES RECEIVABLES (continued)

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

### *Financial assets that are not derecognised in their entirety*

At 31 December 2017, the Group endorsed certain notes receivable accepted by banks in the PRC (the “Endorsed Notes”) with a carrying amount of RMB40,535,000 to certain of its suppliers in order to settle the trade payables due to such suppliers (the “Endorsement”). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Notes, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Notes and the associated trade payables settled. Subsequent to the Endorsement, the Group does not retain any rights on the use of the Endorsed Notes, including sale, transfer or pledge of the Endorsed Notes to any other third parties. The aggregate carrying amounts of the trade payables and other payables settled by the Endorsed Notes during the year to which the suppliers have recourse were RMB40,281,000 and RMB254,000 as at 31 December 2017, respectively.

## 11. TRADE AND NOTES PAYABLES

An aging analysis of the trade payables and notes payable as at the end of the reporting period is as follows:

	2017 <i>RMB'000</i>	2016 <i>RMB'000</i>
Outstanding balances with ages:		
Within 90 days	102,872	33,765
Between 91 and 180 days	39,485	53,238
Between 181 and 270 days	155	228
Between 271 and 360 days	138	3
Over one year	754	704
	<u>143,404</u>	<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. The aggregate carrying amount of the trade payables settled by the Endorsed Notes during the year to which the suppliers have recourse was RMB40,281,000 as at 31 December 2017.



# CHAIRMAN'S STATEMENT

## GROUP RESULTS

The Group has recorded revenue of approximately RMB882,483,000 for the year ended 31 December 2017 (2016: RMB824,351,000), representing an increase of 7.1% as compared to 2016. Profit attributable to owners of the parent was approximately RMB292,978,000 (2016: RMB265,917,000), representing an increase of 10.2% over 2016.

The increase in the revenue and the profit was primarily attributable to complete resumption of production and sales of new products in the reporting period due to sales of products taken back by the Group as a result of cancellation of the master agency agreement for “Leiyide” (雷易得) for treating hepatitis B virus in 2016 was completed by the Group as planned. In addition, losses on intermediate and bulk medicine businesses reduced significantly compared with 2016.

## FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK\$0.12 per share for the year ended 31 December 2017, amounting to the total sum of approximately HK\$95,183,000 (equivalent to approximately RMB76,826,000), to the shareholders whose names appeared in the register of members as of Tuesday, 29 May 2018 subject to the approval of the shareholders at the forthcoming 2018 Annual General Meeting (the “2018 AGM”). Taking into consideration the interim dividend of HK\$0.03 per share, the total annual dividend distributed for the year is HK\$0.15 per share. The dividend payout ratio is approximately 32.7%.

## BUSINESS REVIEW AND PROSPECT

With gradual recovery of the global economy in 2017 and pick-up in economic growth of China for the first time since 2011, there was a good trend in domestic consumption, innovation, investment, etc. Under this background, future economic development will be more steady and vigorous. The pharmaceutical industry of China sustained growth as a whole. Under the guidance of various medical and pharmaceutical policies and measures continuously published by the government, pharmaceutical firms were still under various business pressures and needed to allocate more resources in response to industry operation change. Based on particularity of medical service and continuous increase in per capita medical consumption, rigid social demands remained strong, and the China's medical and health industry maintained favorable development momentum.

In the reporting period, the revenue and profit of the Group increased compared with 2016, and the sales volume of specific medicines remained stable. For “Leiyide” (雷易得) (Entecavir Dispersible Tablets), after direct marketing by the Group, a better-than-expected achievement was made, with the sale target, regional coverage, etc. exceeding the planned ones, which will be conducive to future market expansion. The Group's contract for supply of Entecavir Tablets in Hong Kong market through GlaxoSmithKline Limited, a partner of the Group, was performed smoothly as a whole, and all parties concerned were satisfied with the Group's product quality and supply service.

During the period, the antibiotics end market of China tended to be stable with limited growth. The difficulty in business operation was not significantly mitigated, as some homogeneous varieties competed fiercely. In the first half of 2017, the Group's workshops for production of cephalosporin bulk medicines suspended production due to adjustment and reconstruction. Relevant reconstruction was basically completed, which provided a stronger guarantee of the production quality and capacity for years to come. The Group recorded losses on cephalosporin intermediate and bulk medicine businesses, but the amount of such losses decreased, compared with last year. The Group expects that with successful implementation of business plans and in the absence of any major unforeseeable adversity, cephalosporin intermediate and bulk medicine businesses of the Group would be improved continuously and return to profitability in the foreseeable future.

As disclosed in the announcement titled "DISCLOSEABLE TRANSACTION - RELOCATION COMPENSATION", which was published on the Stock Exchange's website on 20 December 2017, Suzhou Dawnrays Pharmaceutical Co., Ltd. ("Suzhou Dawnrays Pharmaceutical"), a wholly-owned subsidiary of the Group has signed a relocation compensation agreement with the local government, due to certain requirements of Suzhou Municipal People's Government on urban planning of Wuzhong Economic Development Zone, and the amount of relocation compensation agreed by both parties was approximately RMB351,200,000. Refer to the aforesaid announcement for major details of relevant agreement. The Group will take this relocation project as an opportunity to speed up equipment rebuilding of Suzhou Dawnrays Pharmaceutical and promote its technical upgrade, thus boosting the equipment level and manufacturing capacity of the Group, stimulating product and technology transformation and upgrade, improve the manufacturing process level of cephalosporin antibiotic products, product quality, production efficiency and capacity, and enhance the corporate image and comprehensive competitiveness.

In May 2017, the Center for Drug Evaluation, CFDA accepted the application of clinical trial for Class 1 new drug registration of AK102, a monoclonal antibody agent, from AD Pharmaceuticals Co., Ltd. ("AD Pharmaceuticals"), which was jointly invested by Dawnrays Biotechnology Capital (Asia) Limited, a wholly-owned subsidiary of the Company, and Akeso Biopharma Inc. (中山康方生物醫藥有限公司). As at the date of this announcement, the application is still being processed. In addition, active efforts are being made for AK109, another drug of AD Pharmaceuticals under development.

In order to enhance the management efficiency of the Group, it is necessary to adjust the corporate structure. On 1 February 2018, Dawnrays International Company Limited ("Dawnrays International"), a wholly-owned subsidiary of the Group entered into the "Equity Transfer Agreement" ("the Agreement") with an independent third party, in order to transfer all equity interests held by Dawnrays International in Guangdong Dawnrays Pharmaceutical Co., Ltd. ("Guangdong Dawnrays"), a wholly-owned subsidiary of the Group (including assets, business qualification certificates and licenses of Guangdong Dawnrays), for a consideration of RMB2,900,000. Directors of the Company believed that such transfer did not have any material influence on businesses of the Group.

Over the past few years, the government has frequently published different policies and implemented various standardization measures in terms of research, development, production, circulation, terminal and other aspects of the medical and pharmaceutical industry, leading the future development of the China's medical and pharmaceutical industry. In general, the industry will accelerate its upgrade to a higher level, so in the whole process, an enterprise must maintain efficient operation in terms of market, capital, technology, management, etc., and must effectively respond to all changes and requirements of the macro business environment. The Group will, in strict compliance with all national policies, implement all business plans, sufficiently using internal financial resources, in order to maintain a moderate endogenous growth especially in terms of sales and the profit level of specific medicines. It will also continue to seek opportunities for external expansion, so as to accelerate expansion of the size of the Group. Meanwhile, affected by social factors, the China's pharmaceutical market has significant room to grow in the future and eagerly demands for quality drugs. Therefore, in terms of new products and technical innovation, the Group will still take market orientation as an important policy and focus on development of system specific medicines, so as to launch high-quality innovative and first generic products with an obvious curative effect and a high market value in due course, and by doing so, satisfy social demands. Meanwhile, the Group will maintain the sustainable development momentum.

The Group's management will continue to practice its time-honored pragmatic style of operation, aim at the long-term shareholder interest, make prudent decisions and focus on our business. Meanwhile, the management will continue to recruit outstanding talents, optimize the management system and stabilise the management team in a bid to create reasonable returns for the shareholders of the Company.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **REVIEW OF OPERATIONS**

During the review period, under the pressure of intense market competition, sales of the Group's anti-hypertensive drug in "An" (安) series medicines and anti-allergic drug "Xikewei" (西可韋)(Cetirizine Hydrochloride Tablets) kept almost even as compared to 2016. "Leiyide" (雷易得)(Entecavir Dispersible Tablets) achieved remarkable increase in sales. Sales of cephalosporin finished medicines was relatively stable, of which "Xiankemei" (先可美) (Cefmetazole Sodium for Injection) achieved rapid growth once launched on the market. Sales of cephalosporin bulk medicines and intermediates tended to be better as well.

During the period, the Group's marketing management team closely checked the effectiveness of various business plans, adjusted the Group's marketing ideas and sales strategies properly in line with the rapid market changes, strengthened allocation of resources, and optimized supply and sales system, in an effort to maintain the market shares. The Group's marketing management team will continue deepening the market, make efforts to further improve the organization control over the market at various levels, and endeavor to ensure the reasonable increase in sales amount of that series of medicines in 2018, thereby making contributions to the Group's profitability.

### *Anti-Hypertensive Products*

Hypertension is the most common chronic non-communicable disease. According to medical statistics, the prevalence rate of hypertension among Chinese residents aged 18 and above is over 25%, so anti-hypertensive drugs have a broad market prospect. The Group paid special attention to market development in this field, and participated in the national “Chinese Hypertension Intervention Efficacy Study” (CHIEF). The Group cooperated with more than 150 medical institutions to provide anti-hypertensive drugs for over 10,000 patients, so the Group enjoyed favorable brand reputation among doctors and hypertension patients. At present, the Group is also contacting with the administrative department for hypertension of the World Health Organization (WHO), in an attempt to achieve academic cooperation again, and provide academic support for the promotion of “An” (安) series products in future.

During the period, considering the tendency that the product market of common anti-hypertensive drugs extended downwards from the first terminal, the Group’s marketing management carried out precise design and control of the key marketing impact points such as sales channels and sales price of major product “Anneizhen” (安內真) (Amlodipine Besylate Tablets), strengthened allocation of resources, and attached importance to reinforcing the promotion activities of the second and third market terminals, thereby ensuring the continual sales of such products on the market and guaranteeing the stability of market shares. Based on the Group’s integration of the survey data of market research institutions, the sales of “Anneizhen” (安內真) was placed the leading position among similar products on the second and third market terminals in many cities and provinces, and occupied considerable market shares. Moreover, another anti-hypertensive drug “Anneixi” (安內喜) (Losartan Potassium and Hydrochlorothiazide Tablets) of the Group also recorded high sales growth. Ever since 2016, the Group’s marketing management team made a decision on transformation of the sales model of “Anneixi” (安內喜), which made great progress in 2 years, and was placed the leading position among domestic brands in terms of sales. Along with the further refined management in future, it is anticipated that “Anneixi” (安內喜) will become the Group’s second star product for anti-hypertension. In the future, the Group’s marketing management team will focus more attention on brand planning, channel planning, price planning and academic promotion of the “An” (安) series products, strengthen the access design of products to different markets by closely following up national policies related to chronic disease management, and further expand the new market.

### *Antiviral Products*

According to market information, Entecavir is currently “basic” medicine for clinical treatment of hepatitis B, accounting for more than half of the nucleoside drugs. In 2016, the market scale of the single variety of Entecavir in China exceeded RMB5 billion. Since the Master Agency Agreement for 0.5mg “Leiyide” (雷易得) was terminated in July 2016, the Group has directly planned and organized the marketing of “Leiyide” (雷易得). Apart from reinforcing the original marketing channels, the Group also attached great importance to expanding other regional markets. For the tenders in 2016-2017 (“this round”), the marketing management fully researched the tender policies in various places, and made the “stable price” decision of focusing on regional superior market in terms of tender strategy, thereby guaranteeing the price advantages of the product, and ensuring the probability of developing the regional superior market bigger and stronger. After this round of tenders, the tender strategy for “Leiyide” (雷易得) was demonstrated, proving the correct positioning of the Group’s strategy. In further, the Group can reinforce academic promotion and bring into full play the market potential of “Leiyide” (雷易得) by virtue of the “unique cyclodextrin inclusion technology” and the “international quality” strengths. During the period, under the full efforts of the Group’s sales teams, all the market promotion work was successfully implemented, better sales results than expected were obtained, remarkable growth in sales amount as compared to 2016 was recorded, and the long-term stable market foundation was laid for “Leiyide” (雷易得).

### *Anti-Allergic Products*

Cetirizine Hydrochloride is a kind of antihistamine drug without central nervous sedation. It is the first choice for community clinics to treat allergies, as well as one of the national low price drug catalog products. However, as affected by national tenders, its price has dropped continuously, and the overall sales amount and volume both showed downward tendency. During the period, the Group's marketing management deeply research the product of "Xikewei" (西可韋), the competitive products, business customers, etc., and made corresponding adjustment in marketing policy, thereby ensuring its stable market shares. As the sales price of such products is too low, many competitive enterprises have reduced their concern of similar products. However, the Group will combine the sales advantages and spare no effort to promote consistency evaluation of "Xikewei" (西可韋) and take the lead in acquiring the quality advantages of consistency evaluation, so as to further reinforce and enhance the sales volume and market share of "Xikewei" (西可韋). Another product of the Group -- "Xikexin" (西可新) (Levocetirizine Dihydrochloride Tablets) also recorded certain sales scale, which performed effect of filling up the vacancy in terms of sales price and business channels, and made up the market impacts arising from adjustment of the marketing policy for "Xikewei" (西可韋).

### *Finished Cephalosporin Product*

The finished cephalosporin product has long been occupying a significant share of China's antibiotics market due to its good efficacy and safety, and will always have a broad market space because of factors such as environmental pollution (e.g., haze) and enormous social population. In recent years, the restriction of antibiotics, tenders and other factors have inhibited the R&D, production and sales of the Group's products. In view of this, the Group's management optimized the product mix by referring to the actual market circumstances and by combining the corporate strengths, and made certain achievements in satisfying the productivity, profitability and sales volume. In particular, the Group has made breakthroughs in sales terminals. For instance, "Xiankemei" (先可美) took the lead in passing the consistency evaluation of medical institutions in some provinces and regions, which not only blazed a new beginning for the Group's cephalosporin products to return to core hospitals, but also reshaped the professional image of the Group's antibiotics business. As the Group expects, as the consistency evaluation of medical institutions on "Xiankemei" (先可美) advances, the Group's cephalosporin antibiotics business will develop with breakthroughs.

### *Intermediates and Bulk Medicines*

In terms of the Group's business of intermediates and bulk medicines for cephalosporin antibiotics during the review period, after the renovation of bulk medicine workshops, the production conditions were favorable for controlling the production cost and maintaining the product quality, but the Group still recorded losses from the business of intermediates and bulk medicines, and only the amount of losses shrank sharply as compared to 2016.

In consideration of the environment (restriction of antibiotics, etc.) and fierce competition at China's cephalosporin market, the Group determined to adjust the strategy after evaluating various factors and market tendency before the year, and focused attention on production and sales of cephalosporin varieties with higher added values, apart from existing varieties. Therefore, the management expects to continuously improve the business performance of such segment upon successful implementation of various plans, and has the confidence in restoring its profitability contributions in 2018.

### *Product R&D*

Apart from the description in the following section of “NEW PRODUCTS AND PATENT LICENSING”, the Group’s ongoing projects cover the therapeutic areas of circulatory system, digestive system, endocrine system, antiviral drugs, etc. The Group will continue investing more resources in production technology and product R&D and innovation, and seek after various scientific research cooperation opportunities so as to strengthen our product mix and profitability foundation.

### *Other Matters*

During the period, the Group continued optimizing production, product quality, human resources, etc., and endeavored to enhance the risk control capability and improve the operating level of various systems, in an attempt to maintain the Group’s sustainable development in the fierce business competition environment.

## **PRODUCTION AND SALES**

For the year ended 31 December 2017, the Group’s production volume and sales volume of intermediates and bulk medicines respectively remained the same and increased by 4.4% as compared to that in 2016. Due to stable increase in product quality of the Group’s bulk medicines and bulk medicines sales market pickup in the second half of the year, greater increase was achieved. The production volume of cephalosporin powder for injection increased by 11.7% while the sales volume decreased by 7.5% as compared to last year, where the decrease in sales volume of powder for injection was attributable to specie structure adjustment. The production volume of solid-dosage-forms increased by 6.8% as compared to last year, but the sales volume remained the same with that in last year. As for the international business, the Group kept expanding its overseas market, making the overseas sales accounted for 14.0% of total sales volume of the Group, representing a y-o-y growth of 1.8 percentage points.

## **NEW PRODUCTS AND PATENT LICENSING**

- (1) In 2017, a total of 7 declarations for registration were filed with the Food and Drug Administration of Jiangsu Province (including 7 supplementary applications for approval or record and 3 applications for re-registration); a total of 12 approval documents were obtained (including 9 supplementary application documents for record, and 3 re-registration approval documents).
- (2) In 2017, 2 species have been accepted by Center for Drug Evaluation of China Food and Drug Administration for evaluation.
- (3) In 2017, the filing of bio-equivalency (BE) for the consistency evaluation as to a total of 3 species has been completed.
- (4) In 2017, a total of 4 invention patents has been granted:
  - (i) “A Kind of Rosuvastatin Calcium Tablet and its Preparation Processes” were granted the invention patent certificate on 28 July 2017.
  - (ii) “A Kind of Levamlodipine Besylate Tablet and its Preparation Processes” were granted the invention patent certificate on 24 October 2017.
  - (iii) “A Kind of Cefoperazone Sodium Hydrolysate and its Preparation Methods and Purposes” were granted the invention patent certificate on 27 October 2017.
  - (iv) “A kind of Entecavir Dispersible Tablet and its Preparation Processes” were granted the invention patent certificate on 7 November 2017.

## HONORS AWARDED IN 2017

Time of Awards	Honors
June 2017	Suzhou Dawnrays Pharmaceutical Co., Ltd (R&D Center) was awarded one of the foreign-funded R&D centers approved in the first batch to enjoy tax rebate policy as to purchase of domestic equipment and tax policy as to import.
November 2017	Suzhou Dawnrays Pharmaceutical Co., Ltd. passed the qualification certification for “Jiangsu Provincial High-tech Enterprise”.
November 2017	Suzhou Dawnrays Pharmaceutical Co., Ltd. was awarded as “Top 100 Enterprises of China’s Chemical Pharmaceutical Industry in Integrated Corporate Strength in 2017”. The Group’s product “Amlodipine Besylate Tablet” (“Anneizhen”, 安内真) was awarded as “Excellent Product Brand in China’s Pharmaceutical Industry in Anti-Hypertensive Class in 2017”.
November 2017	“Levamlodipine Besylate Tablet (“Anmeiping”, 安美平)” was recognized as “High-tech Product of Jiangsu Province”.
February 2018	Suzhou Dawnrays Pharmaceutical Co., Ltd. was awarded by Wuzhong District Government as “Landmark Technology (Patent) Enterprise” and “Advanced Enterprise in Energy Saving and Emission Reduction” of Wuzhong District in 2017.

## FINANCIAL REVIEW

### SALES AND GROSS PROFIT

For the year ended 31 December 2017, the Group recorded a turnover of approximately RMB882,483,000, which was increased by RMB58,132,000 or 7.1% compared with last year. Of which the turnover of intermediates and bulk medicines was RMB156,882,000 which was decreased by RMB6,704,000 or 4.1% compared with last year. The turnover of finished drugs was RMB725,601,000 which was increased by RMB64,836,000 or 9.8% compared with last year. The reasons for increase in turnover mainly attributed to recovery of growth in sales volume upon the Group’s revocation of agency rights for “Leiyide” (Entecavir Dispersible Tablets).

Sales amount of finished drugs, comprising system specific medicines, powder for injection and tablets of cephalosporin and other oral solid-dosage-form of antibiotics, reached approximately RMB725,601,000. Taking into account of the total turnover, sales amount of finished drugs was approximately 82.2% which was increased by 2.0 percentage points compared with last year. Sales amount of system specific medicines accounted for 90.9% of sales of finished drugs.

Gross profit was approximately RMB561,549,000, which was increased by RMB50,070,000 compared with last year, representing an increase of 9.8%. Gross profit margin increased by approximately 1.6 percentage points to 63.6% from 62.0% as in last year. It was mainly due to the influence of increased sales proportion of system specific medicines.

## TABLE OF TURNOVER ANALYSIS

PRODUCT	TURNOVER			SALES BREAKDOWN		
	(RMB'000)	(RMB'000)	(RMB'000)	(%)	(%)	Percentage points
	2017	2016	Changes	2017	2016	Changes
Intermediates and Bulk Medicines	<b>156,882</b>	163,586	-6,704	<b>17.8</b>	19.8	-2.0
Finished Drugs	<b>725,601</b>	660,765	64,836	<b>82.2</b>	80.2	2.0
Overall	<b>882,483</b>	824,351	58,132	<b>100.0</b>	100.0	0.0

## EXPENSES

During the year, the total expenses incurred were approximately RMB219,536,000, equivalent to 24.9% of turnover (2016: 24.6%). The total expenses increased by approximately RMB16,931,000 compared with last year which was RMB202,605,000. The selling and distribution expenses decreased by RMB10,809,000 compared with last year due to adjustment in sales model. Administrative expenses increased by RMB17,866,000 compared with last year mainly due to the influence by adjustment in employee incentive mechanism. Other expenses increased by RMB10,018,000 compared with last year, mainly due to the increase in consistency evaluation expenses and exchange loss.

## SEGMENT PROFIT

For the year ended 31 December 2017, the segment profit of finished drugs segment was approximately RMB488,211,000, which was increased by approximately RMB68,306,000 when compared with that in 2016 which was RMB419,905,000. The segment results of intermediates and bulk medicines segment recorded losses of approximately RMB5,355,000. The loss was reduced by RMB9,134,000 compared with the loss of RMB14,489,000 in 2016. As the Group had strict control in the production cost of cephalosporin bulk medicines, the overall production cost was reduced and the loss situation of the Group's bulk medicines business had larger improvement compared with last year.

## INTERESTS AND RIGHTS IN ASSOCIATE

During the year, Dawnrays Biotechnology Capital (Asia) Ltd. (Dawnrays Biotechnology) - subsidiary of the Group invested Phase 1 registered capital of RMB50,330,000 as agreed in a joint venture contract (as agreed in such contract, Dawnrays Biotechnology proposed to acquire 35% shares of AD Pharmaceuticals at RMB150,000,000 in total). According to this contract, Dawnrays Biotechnology shall invest the remaining capital by installments as per the completion of the clinical trial of the project by AD Pharmaceuticals. For the year ended 31 December 2017, the R&D and administrative expenses occurred by AD Pharmaceuticals have totaled approximately RMB19,090,000. As a result, the Group shared, in proportion to the investment percentage, an investment loss approximately of RMB6,682,000.



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

For the year ended 31 December 2017, profit attributable to owners of the parent amounted to approximately RMB292,978,000, representing an increase of RMB27,061,000 or 10.2% compared with RMB265,917,000 in last year. Such increase was primarily attributable to recovery of sales of Leiyide, one of the system specific medicines, and decrease in loss of bulk medicines and intermediates.

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

As at 31 December 2017, net assets attributable to owners of the parent were approximately RMB1,806,158,000. 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 16.2% (2016: 16.2%). The current ratio and quick ratio was 4.77 and 4.39 respectively. Turnover days for trade receivables were approximately 60 days. The turnover days for trade receivables including bills receivables were 110 days. Turnover days for inventory were approximately 138 days.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2017, the Group had cash and bank balance approximately RMB611,077,000 (as at 31 December 2016: RMB663,296,000). In addition, in Other Receivables, an amount of RMB449,000,000 was used by the Group to purchase principal-preservation type of wealth management products from several banks in Mainland China in order to increase interest income. The principal and interest of these principal-preservation type of wealth management products can be received on maturity date. During the year, the net cash inflows from operating activities was approximately RMB390,741,000 (2016: RMB320,258,000). Net cash outflows used in investing activities was approximately RMB452,396,000 (2016: RMB105,739,000). Net cash outflows used in financing activities was approximately RMB137,862,000 (2016: RMB117,271,000).

As at 31 December 2017, the Group had aggregate bank facilities of approximately RMB918,341,000 (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 31 December 2017, the Group has no bank loans. Its debt ratio (defined as sum of interest-bearing bank loans over total assets) was 0% (as at 31 December 2016: 0.5%).

As at 31 December 2017, the Group had trade receivables of approximately RMB184,853,000 (as at 31 December 2016: RMB110,684,000), mainly due to the influence of changes in sales model of pharmaceutical enterprises resulted from the implementation of “two-invoice system” throughout pharmaceutical industry in Mainland China.

As at 31 December 2017, the Group had the inventory balance of approximately RMB121,133,000 (as at 31 December 2016: RMB124,746,000).

As at 31 December 2017, the Group’s contracted but not provided for plant and machinery capital commitments amounted to approximately RMB4,500,000 (as at 31 December 2016: RMB3,060,000), which mainly derived from the sewage treatment works and workshop GMP renovation in Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd.

Due to the urban planning adjustment of Wuzhong Economic Development District by Suzhou Municipal People's Government, Suzhou Dawnrays Pharmaceutical entered into the Relocation Compensation Agreement with the government where it operates on 20 December 2017. Both parties agreed relocation compensation amount was approximately RMB351,200,000. According to related accounting standards, such compensation shall be regarded as policy-based relocation compensation, included into "deferred income" in accounting, and recognized as income in case of disposal of assets, paying the relocation fees, and subsequent depreciation of fixed assets.

In 2016, Suzhou Dawnrays Pharmaceutical already applied to increase the registered share capital by USD86,500,000 and would be injected by installments before 1 January 2045. The Group will invest capital expenditure to acquire new lands and build new plants.

The Group has sufficient financial and internal resources to pay the capital commitments, capital expenditure for relocation plans, investment projects and increased registered share capital described above.

Save as aforesaid disclosure, the Group had no significant external investments or material acquisitions or disposal of subsidiaries and associated companies during the year.

Given consecutive loss of Guangdong Dawnrays in recent years, it is expected that the business of Guangdong Dawnrays will be further affected by the implementation of two-invoice system. After the reporting period, for matching the Group's management and future development, Dawnrays International entered into an equity transfer agreement with an independent third party on 1 February 2018. According to this agreement, Dawnrays International would sell all of its shares held in Guangdong Dawnrays at RMB2,900,000. The registered capital of Guangdong Dawnrays was RMB3,000,000. As at date of this announcement, the formalities for such equity transfer are still under process.

## **FOREIGN EXCHANGE AND TREASURY POLICIES**

In 2016, the Group kept a part of foreign currency payments for goods as foreign currency fixed deposits due to the depreciation trend of Renminbi and thus recorded approximately RMB6,966,000 exchange gain. As the appreciation trend of Renminbi in 2017, although the Group timely hedged against foreign exchange rate risk with foreign exchange forward contracts for part of foreign currency fixed deposits, the Group still recorded approximately RMB6,289,000 exchange loss for the year ended 31 December 2017. The Group's substantial business activities, assets and liabilities are denominated in Renminbi, so the risk derived from the foreign exchange to the Group is not high, except for the Group 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 31 December 2017, the Group employed approximately 862 employees and the total remuneration was approximately RMB120,615,000 (2016: RMB99,191,000). The increase was due to changes in sales model, recruiting some new employees, and adjustment in employee incentive mechanism. 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 31 December 2017, the Group had not pledged any assets to banks to secure credit facilities granted to its subsidiaries (as at 31 December 2016: RMB31,815,000).

## CONTINGENT LIABILITIES

As at 31 December 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 capital commitments, increased registered share capital, capital for relocation plans, and external investment 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

During the year, the Company repurchased 9,111,000 shares of the Company’s listed securities on the Stock Exchange at an aggregate consideration of HK\$45,072,000 before expenses. All the repurchased shares were subsequently cancelled by the Company. The Directors believe that the repurchases reflect the Company’s confidence in its long term business prospects and would ultimately benefit the Company and create value for the shareholders of the Company. The monthly breakdown of shares repurchased during the year 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 paid (HK\$’000)
January 2017	420,000	4.74	4.45	1,918
June 2017	3,072,000	5.02	4.34	14,208
July 2017	5,300,000	5.50	4.86	27,413
August 2017	319,000	4.95	4.69	1,533
Total	<u>9,111,000</u>			<u>45,072</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 year ended 31 December 2017.

## **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") for the year ended 31 December 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 other overseas commitment, all Non-executive Directors (including Independent Non-executive Directors) attended the 2017 AGM.

## **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 Company confirms that all the Directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the 2017 annual report.

## **AUDIT COMMITTEE**

The audited financial statements of the Company for the year ended 31 December 2017 have been reviewed by the Audit Committee before recommending them to the Board for approval.

## **SCOPE OF WORK OF THE AUDITORS**

The figures in respect of the Group's financial results for the year ended 31 December 2017 as set out in this preliminary announcement have been agreed by the Group's independent auditors, Ernst & Young ("EY"), to be consistent with the amounts set out in the Group's consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by EY on this preliminary announcement.

## **DIVIDEND AND CLOSURE OF REGISTER**

The Board has resolved to recommend the payment of a final dividend of HK\$0.12 per share payable to shareholders whose names appear in the Register of Members of the Company on Tuesday, 29 May 2018. The proposed final dividend of HK\$0.12 per share, the payment of which is subject to approval of the shareholders at the 2018 AGM of the Company to be held on Thursday, 24 May 2018, is to be payable on Wednesday, 13 June 2018 to shareholders.

The register of members of the Company will be closed during the following periods:

- (i) from Friday, 18 May 2018 to Thursday, 24 May 2018, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2018 AGM. In order to be eligible to attend and vote at the 2018 AGM, all transfer of shares of the Company accompanied by the relevant share certificates and the appropriate share transfer forms must be lodged for registration not later than 4:30 p.m. on Thursday, 17 May 2018 with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (ii) from Wednesday, 30 May 2018 to Thursday, 31 May 2018, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer of shares of the Company accompanied by the relevant share certificates and the appropriate share transfer forms must be lodged for registration not later than 4:30 p.m. on Tuesday, 29 May 2018 with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfers of shares will be registered.

## **APPRECIATION**

Meanwhile, I would like to take this opportunity to express my appreciation for the great support to me in various tasks from the Company's shareholders and directors and the Group's business partners, management personnel and all staff in the previous year.

By Order of the Board  
**Li Kei Ling**  
Chairman

Hong Kong, 22 March 2018

*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. Chen Shaojun; 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.*