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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 2019

#### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

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 2019 (the “period”) together with the comparative figures in 2018. These interim results have been reviewed by the audit committee of the Company.

#### FINANCIAL HIGHLIGHTS

Unaudited	For the six months ended 30 June		
	2019	2018	Change
<b>Revenue (RMB'000)</b>	<b>490,750</b>	496,927	-1.2%
<b>Gross Profit (RMB'000)</b>	<b>295,075</b>	312,672	-5.6%
<b>Gross Profit Margin</b>	<b>60.1%</b>	62.9%	-2.8 percentage points
<b>Profit before tax (RMB'000)</b>	<b>186,956</b>	205,578	-9.1%
<b>Profit for the period attributable to owners of the parent (RMB'000)</b>	<b>150,416</b>	166,193	-9.5%
<b>Net Profit Margin</b>	<b>30.7%</b>	33.4%	-2.7percentage points
<b>Earnings per share --basic (RMB)</b>	<b>0.09485</b>	0.10476	-9.5%
<b>Interim dividend per share (HK\$)</b>	<b>0.015</b>	0.015	-
<b>Net asset value per share (RMB)</b>	<b>1.246</b>	1.197	4.1%

\*for identification purpose only

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the six months ended 30 June	
		<b>2019</b>	2018
		<b>(Unaudited)</b>	(Unaudited)
Notes		<b>RMB'000</b>	<i>RMB'000</i>
	<b>Revenue</b>	3 <b>490,750</b>	496,927
	Cost of sales	<u>(195,675)</u>	<u>(184,255)</u>
	<b>Gross profit</b>	<b>295,075</b>	312,672
	Other income and gains	3 <b>20,541</b>	23,970
	Selling and distribution expenses	<b>(52,372)</b>	(53,921)
	Administrative expenses	<b>(44,401)</b>	(38,558)
	Other expenses	<b>(25,366)</b>	(34,906)
	Finance costs	4 <b>(1,007)</b>	(211)
	Share of profits and losses of an associate	<u><b>(5,514)</b></u>	<u>(3,468)</u>
	<b>PROFIT BEFORE TAX</b>	5 <b>186,956</b>	205,578
	Income tax expense	6 <u><b>(36,540)</b></u>	<u>(39,385)</u>
	<b>PROFIT FOR THE PERIOD</b>	<u><b>150,416</b></u>	<u>166,193</u>
	Attributable to:		
	Owners of the parent	<u><b>150,416</b></u>	<u>166,193</u>
	<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	8	
	- basic, for profit for the period	<u><b>RMB0.09485</b></u>	<u>RMB0.10476</u>
	- diluted, for profit for the period	<u><b>RMB0.09485</b></u>	<u>RMB0.10476</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	<b>2019</b> <b>(Unaudited)</b> <b>RMB'000</b>	2018 (Unaudited) <i>RMB'000</i>
<b>PROFIT FOR THE PERIOD</b>	<b>150,416</b>	166,193
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences	(8,882)	24
<b>OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD, NET OF TAX</b>	<b>(8,882)</b>	24
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX</b>	<b>141,534</b>	166,217
Attributable to:		
Owners of the parent	<b>141,534</b>	166,217

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		468,571	486,269
Right-of-use assets		83,956	-
Land use rights		-	38,093
Construction in progress		13,250	10,572
Goodwill		241,158	-
Other intangible assets		124,385	63,706
Investment in an associate		83,756	29,599
Long-term prepayments		-	21,629
Deferred tax assets		<u>7,304</u>	<u>5,823</u>
Total non-current assets		<u>1,022,380</u>	<u>655,691</u>
<b>CURRENT ASSETS</b>			
Inventories	9	155,405	148,043
Trade and notes receivables	10	361,798	346,802
Prepayments, other receivables and other assets		260,311	380,737
Financial assets at fair value through profit or loss		408,416	189,393
Cash and bank		<u>444,543</u>	<u>645,363</u>
Total current assets		<u>1,630,473</u>	<u>1,710,338</u>
<b>CURRENT LIABILITIES</b>			
Trade and notes payables	11	142,314	130,417
Other payables and accruals		185,655	169,772
Interest-bearing bank loans		197,378	-
Income tax payable		<u>13,186</u>	<u>19,945</u>
Total current liabilities		<u>538,533</u>	<u>320,134</u>
<b>NET CURRENT ASSETS</b>		<u>1,091,940</u>	<u>1,390,204</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>2,114,320</u>	<u>2,045,895</u>

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

	<b>30 June 2019 (Unaudited) RMB'000</b>	31 December 2018 (Audited) RMB'000
<i>Notes</i>		
<b>NON-CURRENT LIABILITIES</b>		
Other liabilities	70,238	70,238
Government grants	1,508	1,508
Lease liabilities	2,660	-
Deferred tax liabilities	<u>64,329</u>	<u>52,987</u>
Total non-current liabilities	<u>138,735</u>	<u>124,733</u>
<b>Net assets</b>	<u><u>1,975,585</u></u>	<u><u>1,921,162</u></u>
<b>EQUITY</b>		
<b>Equity attributable to owners of the parent</b>		
Issued capital	84,197	84,197
Treasury shares	(310)	-
Reserves	<u>1,891,698</u>	<u>1,836,965</u>
<b>Total equity</b>	<u><u>1,975,585</u></u>	<u><u>1,921,162</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 2019 (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 and liabilities 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 27 August 2019.

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 2018, 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. CORPORATE INFORMATION AND BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES *(continued)*

### 1.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised IFRSs effective as of 1 January 2019.

Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
IFRS 16	<i>Leases</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to IAS 28	<i>Long-term Interest in Associates and Joint Venture</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements 2015-2017 Cycle</i>	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised IFRSs are described below:

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17. Since the Group recognized the right-of-use assets at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments there was no impact to the retained earnings.

#### New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

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

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

### As a lessee – Leases previously classified as operating leases

#### *Nature of the effect of adoption of IFRS 16*

The Group has lease contracts for various items of property, machinery, vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognize right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

#### *Impacts on transition*

Lease liabilities at 1 January 2019 were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognized in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/(decrease) RMB'000 (Unaudited)
<b>Assets</b>	
Increase in right-of-use assets	65,416
Decrease in property, plant and equipment	(27,323)
Decrease in prepaid land lease payments	<u>(38,093)</u>
Increase in total assets	<u><u>-</u></u>

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	42
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	<u>(42)</u>
Lease liabilities as at 1 January 2019	<u><u>-</u></u>



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

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

#### Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019

#### Right-of-use assets

Right-of-use assets are recognized at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

#### Lease liabilities

Lease liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate (3.7%) at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

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

### 1.3 CHANGES IN ACCOUNTING POLICIES (continued)

#### Lease liabilities (continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and the movement during the period are as follow:

	Right-of-use assets		Lease liabilities RMB'000 (Unaudited)
	Land use right RMB'000 (Unaudited)	Buildings RMB'000 (Unaudited)	
As at 1 January 2019	65,416	-	-
Additions	-	2,880	2,652
Acquisition of subsidiaries	16,304	-	-
Depreciation charge	(623)	(48)	-
Interest expense	-	-	8
Exchange realignment	27	-	-
As at 30 June 2019	<u>81,124</u>	<u>2,832</u>	<u>2,660</u>

The Group recognized rental expenses from short-term leases of RMB32,000 for the six months ended 30 June 2019.

## 2. SEGMENT INFORMATION

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

- Manufacture and sale of intermediates and bulk medicines (the "intermediates and bulk medicines" segment)
- 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, financial assets at fair value through profit or loss and other unallocated head office and corporate assets as these assets are managed on a group basis.

## 2. SEGMENT INFORMATION *(continued)*

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>		Intermediates	Finished	Elimination of	
<b>30 June 2019 (unaudited)</b>		and bulk medicines	drugs	intersegment	Total
		RMB'000	RMB'000	sales	RMB'000
<b>Segment Revenue:</b>					
Sales to external customers	<b>118,979</b>		<b>371,771</b>	-	<b>490,750</b>
Intersegment sales	<u><b>17,469</b></u>		<u>-</u>	<u><b>(17,469)</b></u>	<u>-</u>
	<b>136,448</b>		<b>371,771</b>	<b>(17,469)</b>	<u><b>490,750</b></u>
<b>Segment Results</b>	<b>614</b>		<b>236,737</b>	-	<b>237,351</b>
<u>Reconciliation:</u>					
Unallocated gains					<b>19,037</b>
Corporate and other unallocated expenses					<b>(68,425)</b>
Finance costs					<u><b>(1,007)</b></u>
Profit before tax					<u><b>186,956</b></u>

<b>Six months ended</b>		Intermediates	Finished	Elimination of	
<b>30 June 2018 (unaudited)</b>		and bulk medicines	drugs	intersegment	Total
		RMB'000	RMB'000	sales	RMB'000
<b>Segment Revenue:</b>					
Sales to external customers	110,892		386,035	-	496,927
Intersegment sales	<u>26,093</u>		<u>-</u>	<u>(26,093)</u>	<u>-</u>
	136,985		386,035	(26,093)	<u>496,927</u>
<b>Segment Results</b>	3,295		253,681	-	256,976
<u>Reconciliation:</u>					
Unallocated gains					22,256
Corporate and other unallocated expenses					(73,443)
Finance costs					<u>(211)</u>
Profit before tax					<u>205,578</u>

## 2. SEGMENT INFORMATION *(continued)*

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

<b>As at 30 June 2019 (unaudited)</b>	Intermediates and bulk medicines RMB'000	Finished drugs RMB'000	Total RMB'000
<b>Segment Assets:</b>	<b>385,347</b>	<b>741,907</b>	<b>1,127,254</b>
<i>Reconciliation:</i>			
Corporate and other unallocated assets			<u><b>1,525,599</b></u>
Total assets			<u><b>2,652,853</b></u>

<b>As at 31 December 2018 (audited)</b>	Intermediates and bulk medicines RMB'000	Finished drugs RMB'000	Total RMB'000
<b>Segment Assets:</b>	<b>369,428</b>	<b>639,193</b>	<b>1,008,621</b>
<i>Reconciliation:</i>			
Corporate and other unallocated assets			<u><b>1,357,408</b></u>
Total assets			<u><b>2,366,029</b></u>

## 3. REVENUE, OTHER INCOME AND GAINS

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

	<b>For the six months ended 30 June</b>	
	<b>2019 (Unaudited) RMB'000</b>	<b>2018 (Unaudited) RMB'000</b>
<b>Revenue</b>		
Revenue from contracts with customers	<u><b>490,750</b></u>	<u><b>496,927</b></u>

### 3. REVENUE, OTHER INCOME AND GAINS (continued)

#### Revenue from contracts with customers

Disaggregated revenue information

#### For the six months ended 30 June 2019

<u>Segments</u>	Intermediates & bulk medicines RMB'000	Finished drugs RMB'000	Total RMB'000
<b>Type of goods or services</b>			
Sale of goods	117,061	371,771	488,832
Rendering of pilot test services	1,918	-	1,918
Total revenue from contracts with customers	<u>118,979</u>	<u>371,771</u>	<u>490,750</u>
<b>Geographical markets</b>			
Mainland China	78,005	368,256	446,261
Other countries	40,974	3,515	44,489
Total revenue from contracts with customers	<u>118,979</u>	<u>371,771</u>	<u>490,750</u>
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	117,061	371,771	488,832
Services transferred over time	1,918	-	1,918
Total revenue from contracts with customers	<u>118,979</u>	<u>371,771</u>	<u>490,750</u>

#### For the six months ended 30 June 2018

<u>Segments</u>	Intermediates & bulk medicines RMB'000	Finished drugs RMB'000	Total RMB'000
<b>Type of goods or services</b>			
Sale of goods	109,857	386,035	495,892
Rendering of pilot test services	1,035	-	1,035
Total revenue from contracts with customers	<u>110,892</u>	<u>386,035</u>	<u>496,927</u>
<b>Geographical markets</b>			
Mainland China	73,444	351,112	424,556
Other countries	37,448	34,923	72,371
Total revenue from contracts with customers	<u>110,892</u>	<u>386,035</u>	<u>496,927</u>
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	109,857	386,035	495,892
Services transferred over time	1,035	-	1,035
Total revenue from contracts with customers	<u>110,892</u>	<u>386,035</u>	<u>496,927</u>

### 3. REVENUE, OTHER INCOME AND GAINS *(continued)*

	<b>For the six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>(Unaudited) RMB'000</b>	(Unaudited) <i>RMB'000</i>
<b>Other income</b>		
Bank interest income	<b>9,498</b>	15,205
Dividend income from financial assets at fair value through profit or loss	<b>199</b>	42
Government grants	<b>2,547</b>	2,539
Others	<b>1,888</b>	5,581
	<b>14,132</b>	23,367
<b>Gains</b>		
Gain on disposal of financial assets at fair value through profit or loss	<b>2,340</b>	603
Fair value gains, net: Financial assets at fair value through profit or loss	<b>4,069</b>	-
	<b>20,541</b>	23,970

### 4. FINANCE COSTS

	<b>For the six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>(Unaudited) RMB'000</b>	(Unaudited) <i>RMB'000</i>
Interest on bank loans wholly repayable within five years	<b>999</b>	211
Lease liability interest	<b>8</b>	-
	<b>1,007</b>	211

## 5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Cost of inventories sold*	195,675	184,255
Depreciation	23,895	26,232
Recognition of right-of-use assets**	671	-
Recognition of land use rights**	-	525
Research and development costs:		
Amortization of intangible assets***	247	209
Current period expenditure	<u>18,073</u>	<u>26,832</u>
	<u>18,320</u>	<u>27,041</u>
Minimum lease payments under operating leases:		
Buildings	<u>32</u>	<u>109</u>
Employee benefit expense (including directors' and chief executive officer's remuneration) :		
Wages and salaries	47,555	44,312
Retirement benefits	3,820	3,839
Accommodation benefits	1,988	1,874
Other benefits	8,242	7,217
Equity-settled share option expense	<u>3,228</u>	<u>3,800</u>
	<u>64,833</u>	<u>61,042</u>
Foreign exchange differences, net	(441)	1,197
Write-down of inventories to net realizable value	5,257	4,690
Fair value (gains)/losses, net:		
Financial assets at fair value through profit or loss	(4,069)	183
Financial liabilities at fair value through profit or loss	-	717
Bank interest income	(9,498)	(15,205)
Loss on disposal of items of property, plant and equipment	141	133
Gain on disposal of financial assets at fair value through profit or loss	<u>(2,340)</u>	<u>(603)</u>

\* The depreciation of RMB18,837,000 (2018: RMB20,673,000) for the period is included in "Cost of inventories sold".

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

\*\*\* The amortization 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	
	2019	2018
	(Unaudited) RMB'000	(Unaudited) RMB'000
Current income tax		
Current income tax charge	30,706	32,014
Adjustments in respect of current income tax in previous years	-	15
Deferred income tax	<u>5,834</u>	<u>7,356</u>
Total tax charge for the period	<u><u>36,540</u></u>	<u><u>39,385</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	
	2019	2018
	(Unaudited) RMB'000	(Unaudited) RMB'000
Dividend pertaining to the prior year declared in the six months ended 30 June	81,450	76,826
Interim – HK\$0.015* (2018: HK\$0.015) per ordinary share	<u><u>21,548</u></u>	<u><u>20,713</u></u>

\*On 27 August 2019, the Company declared an interim dividend for the year ending 31 December 2019, at HK\$0.015 per share, amounting to a total sum of approximately HK\$23,566,000 (approximately equivalent to RMB21,548,000).



## 8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2019 is based on the profit for the period attributable to ordinary equity holders of the parent of RMB150,416,000 (2018: RMB166,193,000) and the weighted average number of 1,585,767,000 shares (2018: 1,586,382,000 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 RMB150,416,000 (2018: RMB166,193,000) and the weighted average number of 1,585,767,000 shares (2018: 1,586,382,000 shares) in issue during the period after adjusting for the effect of dilutive options.

## 9. INVENTORIES

	<b>30 June 2019 (Unaudited) RMB'000</b>	31 December 2018 (Audited) RMB'000
Raw materials	<b>47,546</b>	38,231
Work in progress	<b>52,899</b>	39,768
Finished goods	<b>63,010</b>	76,160
	<b>163,455</b>	154,159
Less: provision	<b>(8,050)</b>	(6,116)
	<b>155,405</b>	148,043

## 10. TRADE AND NOTES RECEIVABLES

An ageing analysis of the trade receivables and notes receivable as at 30 June 2019, based on invoice date and net of loss allowance, is as follows:

	<b>30 June 2019 (Unaudited) RMB'000</b>	31 December 2018 (Audited) RMB'000
Trade receivables		
Outstanding balances with ages:		
Within 90 days	<b>186,258</b>	170,203
Between 91 and 180 days	<b>28,575</b>	20,030
Between 181 and 270 days	<b>7,625</b>	7,621
Between 271 and 360 days	<b>4,790</b>	1,742
Over one year	<b>589</b>	18
	<b>227,837</b>	199,614
Notes receivable	<b>133,961</b>	147,188
	<b>361,798</b>	346,802

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.

## 11. TRADE AND NOTES PAYABLES

An ageing analysis of the trade payables and notes payable as at 30 June 2019 is as follows:

	<b>30 June 2019 (Unaudited) RMB'000</b>	31 December 2018 (Audited) RMB'000
Outstanding balances with ages:		
Within 90 days	<b>91,059</b>	83,169
Between 91 and 180 days	<b>49,974</b>	46,661
Between 181 and 270 days	<b>115</b>	114
Between 271 and 360 days	<b>46</b>	34
Over one year	<b>1,120</b>	439
	<b>142,314</b>	130,417

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.

## 12. BUSINESS COMBINATION

On 7 May 2019, the Group acquired a 100% interest in Top Field Limited from Supper Fort Holdings Limited at a consideration of HK\$436,470,000 (approximately RMB376,132,000). Top Field Limited and its subsidiaries are principally engaged in the research, development, production and sale of drugs. The acquisition was made as part of the Group's strategy to expand its market share of cardiovascular medicine. The purchase consideration for the acquisition was in the form of cash. As at 30 June 2019, HK\$414,646,500 (approximately RMB357,326,000) was paid and the remaining balance of the consideration amounted to HK\$21,823,500 (approximately RMB 18,806,000) will be paid within 10 business days from a six-month period after completion (subject to there being no breach of warranties and undertakings under the sale and purchase agreement by Supper Fort Holdings Limited).

The fair values of the identifiable assets and liabilities of Top Field Limited as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000 (Unaudited)
Property, plant and equipment	27,406
Right-of-use assets	16,304
Intangible assets	58,850
Long-term equity investment	1,588
Inventories	3,789
Trade and notes receivables	820
Cash and bank	70,597
Prepayments, other receivables and other assets	7,825
Trade and notes payables	(136)
Other payables and accruals	(35,407)
Deferred tax liabilities	(16,251)
Income tax payable	<u>(411)</u>
Total identifiable net assets at fair value	134,974
Goodwill on acquisition	<u>241,158</u>
Satisfied by cash	<u><u>376,132</u></u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	<i>RMB'000</i>
Cash consideration paid	357,326
Cash and bank balances acquired	<u>(70,597)</u>
Net outflow of cash and cash equivalents included in cash flows from investing activities	<u><u>286,729</u></u>

## **CHAIRMAN’S STATEMENT**

### **RESULTS**

The Group recorded revenue of approximately RMB490,750,000 for the six months ended 30 June 2019 (2018: RMB496,927,000), representing a decrease of approximately 1.2% compared to the same period of 2018. Profit attributable to the owners of the parent was approximately RMB150,416,000 (2018: RMB166,193,000), representing a decrease of approximately 9.5% compared to the same period of 2018.

The decrease in revenue and profit was mainly due to the decrease in sales of Entecavir, a specific medicine of the Group, as well as the decrease in sales of cephalosporin powder for injection of the Group compared to the same period of 2018.

### **BUSINESS REVIEW AND PROSPECT**

A series of medical and pharmaceutical policies implemented by the government in recent years continue to have various impacts on the pharmaceutical industry in China during the period. Price reduction through tendering, group purchasing, stricter quality systems and other matters lead to a slowdown in revenue and profit growth rates of the chemical pharmaceutical industry. In spite of continuous price reduction pressure on the pharmaceutical terminal market from various government policies including medical insurance fee control, reduction in the proportion of medicine prices, and group purchasing, the market continues to grow, as the overall demand for medicines is supported by social factors including the growth of China’s population, the accelerated ageing of the population, the enhancement of health awareness, and the continuous improvement of citizens’ affordability. Moreover, due to the homogenization of products, the competition among peer companies in the chemical pharmaceutical industry in China is becoming more and more fierce. Pharmaceutical enterprises must, in a timely and effective manner, adjust their operation strategies to adapt to the changing market, in order to create conditions to maintain the original business size.

Details of the progress of the relocation compensation for Suzhou Dawnrays Pharmaceutical Co., Ltd., a subsidiary of the Group are set out in the Management Discussion and Analysis in this report. In addition, in accordance with relevant legal requirements, clinical trials and pre-clinical preparations are conducted in an orderly manner for the application for Class 1 new drug registration of AK102 and AK109, both of which are monoclonal antibody agents developed by AD Pharmaceuticals Co., Ltd., a company jointly established by Dawnrays Biotechnology Capital (Asia) Ltd., a subsidiary of the Company, and Akeso Biopharma Inc.

During the period, the Group completed the acquisition of Top Field Limited which indirectly wholly owns Cinmed Pharmaceutical Company Limited (“Cinmed Pharmaceutical”). After the acquisition, the Group has gradually integrated various resources with good progress and prepared for the smooth launch of commercial sales of the atorvastatin calcium tablet, a major product of Cinmed Pharmaceutical. In addition, the Group has made efforts to accelerate the research into new products of Cinmed Pharmaceutical, with a view that each new product will become a new source of income of the Group within a reasonable time.

Looking forward to the future development of China's pharmaceutical market, the Group expects that China's chemical pharmaceutical industry will operate in a more challenging business environment, affected by two national policies, namely quality consistency evaluation for generic drugs and group purchasing. The Company will comprehensively integrate the existing human, technical and financial resources, make efforts to reduce corporate operating and production costs, maintain and expand the market share of the existing products to relieve the downward pressure on product prices. Meanwhile, the Group will strengthen the organizing capability and the policy implementation capacity of enterprises, and seek to develop new products that can meet the treatment demand, from the perspective of tolerable research and development risks of enterprises, through endogenous and exogenous approaches, so as to expand the Group's research and development pipeline assets and strengthen the structural combination of products launched.

The Company will, on the basis of years of successful experience, plan and manage research and development, production and sales work in an all-round way, and strive to promote the close combination of the three aspects to produce maximum effect, so as to fully unlock the potential value of the Group's industrial chain and continue to produce a reasonable return on investment for the Company's shareholders.

## **INTERIM DIVIDEND**

The Board resolved to declare an interim dividend of HK\$0.015 per share for the year ending 31 December 2019, approximately amounting to a total sum of HK\$23,566,000 (equivalent to approximately RMB21,548,000).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **REVIEW OF OPERATIONS**

During the period, in a highly competitive market environment, sales of the Group's anti-hypertensive drug in "An" (安) series medicines, and anti-allergic drugs "Xikewei" (西可韋) and "Xikexin" (西可新), respectively increased by 12.0% and 14.5% compared with the corresponding period of 2018, continuing to make significant contribution to the profitability of the Group. However, "Leiyide" (雷易得) (Entecavir Dispersible Tablets) was affected by the failure to win the bid in Hong Kong and "4+7" centralized procurement, with a significant decrease of 47.4% in sales during the review period, compared with the corresponding period of last year. The competitiveness of cephalosporin intermediates and bulk medicines was enhanced significantly due to continuous improvement in product quality and production cost reduction by the Group. The turnover increased by 7.3%, while for the segment results, there was a small profit.

Since the Group acquired Cinmed Pharmaceutical Company Limited ("Cinmed Pharmaceutical") on 7 May 2019, with the efforts of the sales team, its lipid-lowering drug (Atorvastatin Calcium Tablets (阿托伐他汀鈣片)) has entered the market rapidly, which has also driven sales of other existing products of Cinmed Pharmaceutical. As at 30 June 2019, the products of Cinmed Pharmaceutical were sold in 27 provinces, municipalities and autonomous regions of China.

During the period, the Group's marketing management personnel closely reviewed the effectiveness of various business plans, properly adjusted the Group's product marketing ideas and strategies and strengthened resource allocation in response to rapid changes in the market, actively identified market gaps, deeply engaged in existing markets and developed new product markets to ensure a steady and stable condition in the Group's sales and eliminate the impact of "4+7" centralized procurement.

## **PRODUCT R&D**

Apart from the description in the following section of "NEW PRODUCTS AND PATENT LICENSING", the Group's ongoing research 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 forms of external cooperation opportunities so as to strengthen our product mix and profitability foundation.

## **CONSISTENCY EVALUATION**

In June 2019, the Group obtained the supplementary approval for the consistency evaluation registration of "Levocetirizine Dihydrochloride Tablets". In addition, as at 30 June 2019, the Group carried out the quality consistency research of 18 varieties. Consistency evaluation applications for 3 of such varieties have been submitted to the Center for Drug Evaluation, National Medical Products Administration, while bioequivalence (BE) clinical trials of 2 of such varieties are carried out, and pharmaceutical research into 13 of such varieties is conducted.

## **PRODUCTION QUALITY**

During the period, the Group's production of intermediates and bulk medicines decreased by 28.0% compared with the corresponding period of last year, mainly due to the decrease in the number of Ceftriaxone Sodium export orders. The production of cephalosporin powder for injection decreased by 10.1%. The production of solid-dosage-forms increased by 2.9%. Due to the improvement of the Group's production process and the enhancement of the quality control system, the product quality has been greatly improved, further enhancing the product market competitiveness of the Group.

## **OTHER MATTERS**

During the period, the Group promoted corporate governance and other aspects in an orderly manner, and continued to improve the safety and environmental protection work. The employee training system was gradually improved. The development of corporate culture was carried out actively, thus further enhancing the cohesion of employees.

## **NEW PRODUCTS AND PATENT LICENSING**

- (1) During the period from January to June 2019, a total of 2 varieties were submitted to National Medical Products Administration for applying for drug registration and obtaining CDE acceptance number. Supplementary applications for 3 varieties were submitted to Jiangsu Drug Administration; 3 supplementary approvals were obtained.
- (2) One invention patent was obtained in 2019  
The invention patent (Patent No.: ZL201510256115.1) was granted for “Cetirizine Hydrochloride Tablets and Preparation Process” on 11 June 2019.
- (3) Two utility model patent certificates were obtained in 2019  
A utility model patent certificate (Patent No.: ZL201820948153.2) was granted for “A Metformin Hydrochloride Tablet Tableting Device” on 18 January 2019.  
A utility model patent certificate (Patent No.: ZL201821421660.7) was granted for “A Particle Screening Device for Preparation of Azithromycin Tablets” on 29 March 2019.

## **HONORS AWARDED IN 2019**

In April 2019, the certificate of “Work Safety Standardization Grade II Enterprise” was granted to Suzhou Dawnrays Pharmaceutical Science and Technology Co., Ltd., a subsidiary of the Group.

In June 2019, Suzhou Dawnrays Pharmaceutical Co., Ltd. (research and development center), a subsidiary of the Group, was recognized as one of the “First Foreign-Invested Research and Development Centers Meeting the Import Tax Policy in 2019 in Jiangsu Province”.

## **FINANCIAL REVIEW**

### **SALES AND GROSS PROFIT**

For the six months ended 30 June 2019, the Group recorded a turnover of approximately RMB490,750,000, representing a decrease of RMB6,177,000, or 1.2%, compared with that of RMB496,927,000 during the corresponding period of last year. Of which, sales of intermediates and bulk medicines was RMB118,979,000, representing an increase of RMB8,087,000, or 7.3%, compared with last year; sales of finished drugs was RMB371,771,000, representing a decrease of RMB14,264,000, or 3.7%, compared with last year.

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 RMB371,771,000. Taking into account of the total turnover, sales amount of finished drugs was approximately 75.8%, representing a decrease of 1.9 percentage points compared with last year, of which, sales amount of system specific medicines accounted for approximately 91.4% of sales of finished drugs.

Export sales amount accounted for approximately 9.1% of the total turnover. The export destinations mainly included countries and regions such as Italy, Russia, Pakistan and India etc.

Gross profit was approximately RMB295,075,000, which was decreased by RMB17,597,000 compared with the corresponding period of last year. Gross profit margin was 60.1%, which was decreased by 2.8 percentage points compared with 62.9% as in the corresponding period of last year. It was mainly due to the decrease in sales of “Leiyide” (雷易得).

## TABLE OF TURNOVER ANALYSIS - by product category

PRODUCT	TURNOVER (RMB'000)			SALES BREAKDOWN (%)		
	For the six months ended 30 June			For the six months ended 30 June		Percentage Points changes
	2019	2018	Changes	2019	2018	
Intermediates and						
Bulk Medicines	<b>118,979</b>	110,892	8,087	<b>24.2</b>	22.3	1.9
Finished Drugs	<b>371,771</b>	386,035	-14,264	<b>75.8</b>	77.7	-1.9
Overall	<b>490,750</b>	496,927	-6,177	<b>100.0</b>	100.0	0.0

## EXPENSES

During the period, the total expenses incurred were approximately RMB123,146,000, equivalent to 25.1% of turnover (2018: 25.7%), a decrease of 0.6 percentage points compared with the corresponding period of last year. The total expenses decreased by approximately RMB4,450,000 compared with the corresponding period of last year, mainly attributed to the decrease in selling expenses and R&D costs.

## SEGMENT PROFIT

For the six months ended 30 June 2019, the segment profit of finished drugs segment was approximately RMB236,737,000, which was decreased by approximately RMB16,944,000 when compared with the segment profit of RMB253,681,000 as in the first half of 2018. The segment profit of intermediates and bulk medicines segment was approximately RMB614,000, which was decreased by approximately RMB2,681,000 when compared with the profit of RMB3,295,000 as in the first half of 2018.

## INTERESTS AND RIGHTS IN ASSOCIATE

During the period, AD Pharmaceuticals Co., Ltd., which was invested by the Group’s subsidiary Dawnrays Biotechnology Capital (Asia) Ltd. (Dawnrays Biotechnology), has carried out Phase II clinical trials for AK102, a monoclonal antibody agent and received clinical trial approval document for AK109, a monoclonal antibody agent. Dawnrays Biotechnology invested RMB59,670,000 as Phase 2 registered capital according to the joint venture agreement and the aggregate invested capital amounted to RMB110,000,000. For the six months ended 30 June 2019, the R&D and administrative expenses occurred by that company have totaled approximately RMB15,693,000. As a result, the Group shared, in proportion to the investment percentage, an investment loss of approximately RMB5,514,000, as compared with that of RMB3,468,000 in the corresponding period of 2018.



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

For the six months ended 30 June 2019, profit attributable to owners of the parent amounted to approximately RMB150,416,000, representing a decrease of RMB15,777,000 or 9.5% compared with the corresponding period of last year. The decrease was mainly attributed to the decrease in sales of “Leiyide”(雷易得) and also the contribution improvement of both “An” (安) series medicines and “Xingan ” (興安) series medicines.

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

As at 30 June 2019, net assets attributable to owners of the parent were approximately RMB1,975,585,000. 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 7.6% (2018: 8.7%). The current ratio and quick ratio was 3.0 and 2.7 respectively. Decrease in current ratio and quick ratio was mainly attributed to the impact of fund change due to acquisition of Cinmed Pharmaceutical. Turnover days for trade receivables were approximately 78 days. Turnover days for accounts receivable including trade and notes receivables were approximately 130 days. Turnover days for inventory were approximately 140 days. The turnover days for accounts receivable has increased mainly because the customer’s payback period has been lengthened after the implementation of the “Two-invoice System”. The increase of turnover days for inventory is mainly due to the stock up of bulk medicines at the end of June.

## **FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

As at 30 June, 2019, the Group had financial assets at fair value through profit or loss (comprising of certain listed shares investments) including:

- (i) invested in certain Hong Kong public listed shares amounted approximately RMB8,725,000 (31 December 2018: approximately RMB8,149,000);
- (ii) invested in one-year bonds issued by China Development Bank amounted RMB50,199,000 (31 December 2018: RMB70,000,000) with expected yield amounting approximately RMB120,000;
- (iii) purchased certain wealth management products of floating income principal-preservation type with annual interest rate from 3.45% to 4.3% of RMB345,000,000 (31 December 2018: RMB110,000,000) from five good credit worth banks in China including “Sui Xin E”(隨心E) with principal amount RMB30,000,000, “Hui Li Feng” (匯利豐) structured deposit of RMB100,000,000 and “Dan Wei Jie Gou Xing Cun Kuan” (單位結構性存款) of total RMB215,000,000 from three other banks. The expected yield would be approximately RMB4,331,000 in total. The wealth management products were mainly relatively lower risk of default. All principal and interests will be paid together on the maturity date. The Board believes that the investment in aforementioned wealth management products can strengthen the financial position of the Group and bring the fruitful contribution to the profit of the Group;
- (iv) during the period, the Group purchased foreign exchange forward contracts amounting to US\$800,000. As at 30 June 2019, a gain of approximately RMB41,000 was recorded in such forward contracts measured at fair value as at 30 June 2019.

The above mentioned financial assets at fair value through profit or loss amounted to approximately RMB408,416,000 (31 December 2018: approximately RMB189,383,000), representing approximately 15.4% (31 December 2018: 8.0%) of the total assets of the Group. For the year ended 30 June 2019, the Group recorded a total of realized gain of approximately RMB2,340,000 from the disposal of financial assets at fair value through profit or loss, and unrealized fair value gain (net) of approximately RMB4,069,000 for the financial assets at fair value through profit or loss. The Board believes that investing in equity investments and financial assets can diversify the Group's investment portfolio and achieve better returns in the future.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2019, the Group held cash and bank balance of approximately RMB444,543,000 (as at 31 December 2018: RMB645,363,000). For the purpose of operating the idle funds more effectively and improve returns, the Group has purchased principal-preservation type of wealth management products and bonds from several banks in Mainland China. In addition to the principal-preservation type of structured deposits and bonds issued by China Development Bank as mentioned above in “Financial asset at fair value through profit or loss”, an amount of RMB220,000,000 in other receivables was fixed interest rate principal-preservation type of wealth management products with annual interest rate between 3.45% and 4.0%. The principal and interest of these principal-preservation type of wealth management products and bonds can be received on maturity date.

During the period, the net cash flows from operating activities was approximately RMB109,501,000 (2018: RMB118,280,000). Net cash flows used in investing activities was approximately RMB427,462,000 (2018: RMB137,149,000). Net cash flows from financing activities was approximately RMB106,040,000 (2018: RMB3,247,000). Cash and cash equivalents decreased by approximately RMB211,921,000 (2018: RMB15,622,000).

As at 30 June 2019, the Group had aggregate bank facilities of approximately RMB1,316,069,000 (as at 31 December 2018: RMB1,402,762,000), of which, bank facilities of RMB216,069,000 were secured by corporate guarantee of the Company. The Group's short-term bank loans of RMB197,378,000 was arranged on the fixed interest rate, and the loan annual interest rate was 3.7%-3.75%. As at 30 June 2019, the debt ratio (defined as sum of interest-bearing bank loans over total assets) of the Group was 7.4% (as at 31 December 2018: 0%).

As at 30 June 2019, the Group had inventory balance approximately RMB155,405,000 (as at 31 December 2018: RMB148,043,000).

During the period, Dawnrays International Company Limited, a subsidiary of the Group, acquired Top Field Limited, at a consideration of HK\$436,470,000, thus indirectly wholly owns Cinmed (Hong Kong) Investment Limited and Cinmed Pharmaceutical Company Limited. The remaining amount of HK\$21,823,500 will be paid within 10 business days from a six-month period after completion date (i.e. 7 May 2019) (subject to there being no breach of warranties and undertakings under the sale and purchase agreement by Supper Fort Holdings Limited). Relevant details were set out in the announcements of the Company dated 27 February 2019 and 7 May 2019.

During the period, in order to develop new independently-operated research and development platforms and focus on developing new drug products by the use of new technologies of drug delivery systems for meeting the market demand for drugs in innovative dosage forms, Suzhou Dawnrays Pharmaceutical Co., Ltd. (“Suzhou Dawnrays Pharmaceutical”), a subsidiary of the Group, entered into a joint venture agreement with two independent third parties, to acquire 65% of the shares of Nanjing PharmaRays Science and Technology Ltd. (南京福美瑞信科技有限公司) (“Nanjing PharmaRays”, a research and development enterprise). The registered capital of Nanjing PharmaRays is RMB50,000,000, and Suzhou Dawnrays Pharmaceutical has made a capital contribution of RMB10,000,000 for the first instalment, in accordance with the joint venture agreement.

Due to the urban planning adjustment of Wuzhong Economic Development District by Suzhou Municipal People’s Government, Suzhou Dawnrays Pharmaceutical Co., Ltd., a wholly-owned subsidiary of the Group, entered into the Relocation Compensation Agreement with the government where it operates on 20 December 2017. Both parties agreed the relocation compensation amount was approximately RMB351,200,000. In January 2018, Suzhou Dawnrays Pharmaceutical Co., Ltd. received the first relocation compensation of RMB70,238,000. On 14 August 2019, through public auction by Suzhou Natural Resources and Planning Bureau (蘇州市自然資源和規劃局), Suzhou Dawnrays Pharmaceutical Co., Ltd. acquired the industrial land with an area of 100 mu located in Hedong Industrial Park in Suzhou Wuzhong Economic Development Zone, for the relocation project.

As at 30 June 2019, the Group’s contracted but not provided for plant and machinery capital commitments and capital contributions payable to joint ventures amounted to approximately RMB72,569,000 (as at 31 December 2018: RMB84,130,000), which mainly derived from workshop transformation in Dawnrays (Nantong) Pharmaceutical Science and Technology Co. Ltd., the relocation project of Suzhou Dawnrays Pharmaceutical Co., Ltd. and capital investment in joint ventures.

The Group has sufficient financial and internal resources, but still may finance aforesaid capital expenditure with bank borrowing(s) or the Groups internal resources.

Save as aforesaid disclosure, 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**

During the period, to avoid the foreign exchange risk from export trade, the Group purchased foreign exchange forward contract of US\$800,000. The gain of the forward contract was approximately RMB41,000 at the fair value on 30 June 2019. The Group's substantial business activities, assets and liabilities are denominated in Renminbi, so the risk derived from the foreign exchange is not high. However, the Group pays dividends in Hong Kong dollars. Therefore, foreign exchange risk is mainly related to the Hong Kong dollar.

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 2019, the Group employed 966 employees and the total remuneration was approximately RMB64,833,000 (2018: RMB61,042,000). 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 2019, the Group had not pledged any assets to banks to secure credit facilities granted to its subsidiaries (as at 31 December 2018: nil).

## **CONTINGENT LIABILITIES**

As at 30 June 2019, the Group had no material contingent liabilities.

## **EVENT AFTER THE REPORTING PERIOD**

In August 2019, Cinmed Pharmaceutical Company Limited (“Cinmed Pharmaceutical”) (which became a wholly-owned subsidiary of the Group on 7 May 2019) and Suzhou Dawnrays Pharmaceutical Co., Ltd. (a wholly-owned subsidiary of the Group), as defendants received a writ whereby the plaintiffs (“Plaintiffs”) sought damages of RMB96.7 million in respect of the termination of the marketing agency service agreement (“市場推廣服務協議”) and the national distribution agreement (“全國總經銷配送協議”) between Cinmed Pharmaceutical and the Plaintiffs (the “Agreements”). In connection with such action, Fujian Putian Intermediate People’s Court issued an order dated 6 August 2019 that certain bank accounts and plant properties of Cinmed Pharmaceutical are to be temporarily frozen or attached. Such order does not have any material adverse effect on the financial position or operation of the Group. Based on the preliminary legal advice, the directors considered that no provision needs to be made. Further, under the formal sale and purchase agreement dated 29 March 2019 in respect of the acquisition of Top Field Limited (which indirectly wholly owns Cinmed Pharmaceutical), the seller has undertaken to undertake all costs and expenses (including but not limited to the settlement amount and costs incurred in legal proceedings) arising from or in connection with the termination of the Agreements.

## **PLANS FOR SIGNIFICANT INVESTMENTS AND EXPECTED SOURCE OF FUNDING**

Save for those disclosed above in connection with capital commitments under the section “Liquidity and Financial Resources” and increase of registered capital, capital for relocation plans and investments in joint ventures as mentioned in the Annual Report 2018, 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 2019, the Company repurchased 7,025,000 shares of the Company's listed securities on the Stock Exchange at an aggregate consideration of HK\$10,003,980 before expenses. The repurchases were effected by the Directors for the enhancement of shareholder value in the long term. 3,027,000 repurchased shares were cancelled on 5 July 2019 and 3,998,000 repurchased shares were cancelled on 16 July 2019.

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

<b>Month of Repurchase</b>	<b>Number of shares repurchased</b>	<b>The highest price paid per share (HK\$)</b>	<b>The lowest price paid per share (HK\$)</b>	<b>Aggregate consideration (HK\$)</b>
May 2019	1,156,000	1.42	1.35	1,596,270
June 2019	5,869,000	1.49	1.38	8,407,710
<b>Total</b>	<b>7,025,000</b>			<b>10,003,980</b>

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 2019.

## **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 2019.

## **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 2019.

## 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 announcement, the Audit Committee's chairman was Mr. Lo Tung Sing Tony, Mr. Ede, Ronald Hao Xi and Ms. Lam Ming Yee Joan 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 2019 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 Thursday, 26 September 2019 to Friday, 27 September 2019 (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 Wednesday, 25 September 2019. 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 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 25 September 2019. Dividend warrants will be despatched to shareholders on or about Thursday, 10 October 2019.

## APPRECIATION

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

By Order of the Board  
Dawnrays Pharmaceutical (Holdings) Ltd.  
**Li Kei Ling**  
Chairman

Hong Kong, 27 August 2019

*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. Lo Tung Sing Tony, Mr. Ede, Ronald Hao Xi and Ms. Lam Ming Yee Joan.*