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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 2022**

**RESULTS HIGHLIGHTS**

	For the year ended		Changes
	2022	2021	
Revenue (RMB'000)	1,277,682	1,165,155	9.7%
Gross profit (RMB'000)	773,551	681,262	13.5%
Gross profit margin (%)	60.5%	58.5%	2 percentage points
Share of losses of an associate (RMB'000)	61,905	46,418	33.4%
Profit before tax (RMB'000)	438,408	439,323	-0.2%
Operating profit (RMB'000)	380,292	335,085	13.5%
Profit for the year (RMB'000)	355,851	354,163	0.5%
Profit attributable to owners of the parent (RMB'000)	358,057	358,175	-0.03%
Net profit margin (%)	27.9%	30.4%	-2.5 percentage points
Earnings per share attributable to ordinary equity holders of the parent—basic (RMB)	0.2389	0.2392	-0.1%
Proposed final dividend per share (HK\$)	0.073	0.065	12.3%

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 2022 (the “reporting period”) together with the comparative amounts for 2021 as follows:

\*for identification purpose only

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
<b>REVENUE</b>	4	1,277,682	1,165,155
Cost of sales		<u>(504,131)</u>	<u>(483,893)</u>
<b>Gross profit</b>		773,551	681,262
Other income and gains	4	86,948	135,879
Selling and distribution expenses		(142,733)	(109,030)
Administrative expenses		(122,058)	(117,409)
Research and development costs		(79,478)	(67,028)
Other expenses	5	(15,546)	(37,292)
Finance costs	6	(371)	(641)
Share of losses of an associate		<u>(61,905)</u>	<u>(46,418)</u>
<b>PROFIT BEFORE TAX</b>	7	438,408	439,323
Income tax expense	8	<u>(82,557)</u>	<u>(85,160)</u>
<b>PROFIT FOR THE YEAR</b>		<u>355,851</u>	<u>354,163</u>
Attributable to:			
Owners of the parent		358,057	358,175
Non-controlling interests		<u>(2,206)</u>	<u>(4,012)</u>
		<u>355,851</u>	<u>354,163</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>	10		
Basic, for profit for the year		<u>RMB0.2389</u>	<u>RMB0.2392</u>
Diluted, for profit for the year		<u>RMB0.2383</u>	<u>RMB0.2375</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2022

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>PROFIT FOR THE YEAR</b>	<u>355,851</u>	<u>354,163</u>
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(10,414)	6,019
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company's financial statements	18,819	(6,963)
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX</b>	<u>8,405</u>	<u>(944)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<u><u>364,256</u></u>	<u><u>353,219</u></u>
Attributable to:		
Owners of the parent	366,462	357,231
Non-controlling interests	<u>(2,206)</u>	<u>(4,012)</u>
	<u>364,256</u>	<u>353,219</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2022

	Notes	2022 RMB '000	2021 RMB '000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		696,122	356,930
Right-of-use assets		109,603	110,755
Construction in progress		495,144	675,201
Goodwill		241,158	241,158
Other intangible assets		295,027	287,013
Investment in an associate		25,345	87,250
Loan to an associate		51,825	50,110
Long-term prepayments		7,564	14,356
Deferred tax assets		6,860	5,749
Total non-current assets		<u>1,928,648</u>	<u>1,828,522</u>
<b>CURRENT ASSETS</b>			
Inventories		241,746	203,476
Trade and notes receivables	11	402,850	346,778
Prepayments, other receivables and other assets		103,782	80,591
Financial assets at fair value through profit or loss		181,357	208,184
Cash and bank balances		811,682	577,744
		<u>1,741,417</u>	<u>1,416,773</u>
Assets held for sale		2,578	94,263
Total current assets		<u>1,743,995</u>	<u>1,511,036</u>
<b>CURRENT LIABILITIES</b>			
Trade and notes payables	12	224,073	143,212
Other payables and accruals		516,068	490,521
Derivative financial instruments		474	-
Interest-bearing bank and other borrowings		6,434	21,013
Lease liabilities		1,534	980
Income tax payable		8,650	15,498
Other liabilities, current		174,824	25,880
Total current liabilities		<u>932,057</u>	<u>697,104</u>
NET CURRENT ASSETS		<u>811,938</u>	<u>813,932</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,740,586</u>	<u>2,642,454</u>
<b>NON-CURRENT LIABILITIES</b>			
Government grants		300	600
Deferred tax liabilities		89,975	66,871
Other liabilities, non-current		-	175,595
Lease liabilities		444	1,527
Total non-current liabilities		<u>90,719</u>	<u>244,593</u>
<b>Net assets</b>		<u>2,649,867</u>	<u>2,397,861</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

31 December 2022

	Notes	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Issued capital		80,389	80,370
Reserves		<u>2,561,567</u>	<u>2,300,344</u>
		<u>2,641,956</u>	<u>2,380,714</u>
Non-controlling interests		<u>7,911</u>	<u>17,147</u>
<b>Total equity</b>		<u><u>2,649,867</u></u>	<u><u>2,397,861</u></u>

Notes:

## 1. BASIS OF PREPARATION

These 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) issued by the International Accounting Standards Board (“IASB”) 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 and financial assets at fair value through other comprehensive income that have been measured at fair value. Non-current assets held for sale are stated at the lower of their carrying amounts and fair values less costs to sell. 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 include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2022. 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).

Generally, there is a presumption that a majority of voting rights results in control. 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 revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i>
<i>Annual Improvements to IFRS Standards 2018–2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

The nature and the impact of the revised IFRSs that are applicable to the Group are described below:

- (a) Amendments to IFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (“the Conceptual Framework”) issued in March 2018 without significantly changing its requirements. The amendments also add to IFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination, an entity applying IFRS 3 should refer to IAS 37 or IFRIC 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the year, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to IAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by IAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to IAS 37 clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.
- (d) *Annual Improvements to IFRS Standards 2018-2020* sets out amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41. Details of the amendments that are applicable to the Group are as follows:

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- IFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

## 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 finished drugs (including antibiotics finished drugs and non-antibiotics finished drugs) (the "finished drugs" segment)
- b) Manufacture and sale of intermediates and bulk medicines (the "intermediates and bulk medicines" segment)

Management monitors the operating results of these operating segments for the purpose of making decisions about resource 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, non-lease-related finance costs, government grants, dividend income, fair value gains from the Group's financial instruments, share of losses of an associate, as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, cash and bank balances, 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.

Segment liabilities exclude interest-bearing bank and other borrowings, 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

31 December 2022

	Finished drugs <i>RMB'000</i>	Intermediates and bulk medicines <i>RMB'000</i>	Elimination of intersegment sales <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue:</b>				
Sales to external customers	1,137,241	140,441	-	1,277,682
Intersegment sales	-	64,644	(64,644)	-
	<u>1,137,241</u>	<u>205,085</u>	<u>(64,644)</u>	<u>1,277,682</u>
<b>Segment results</b>	608,806	(17,775)	-	591,031
<b>Reconciliation:</b>				
Unallocated gains				47,226
Corporate and other unallocated expenses				(199,553)
Finance costs (other than interest on lease liabilities)				(296)
Profit before tax				<u>438,408</u>

#### Year ended

31 December 2021

	Finished drugs <i>RMB'000</i>	Intermediates and bulk medicines <i>RMB'000</i>	Elimination of intersegment sales <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue:</b>				
Sales to external customers	1,009,152	156,003	-	1,165,155
Intersegment sales	1,855	59,560	(61,415)	-
	<u>1,011,007</u>	<u>215,563</u>	<u>(61,415)</u>	<u>1,165,155</u>
<b>Segment results</b>	546,252	(2,296)	-	543,956
<b>Reconciliation:</b>				
Unallocated gains				107,175
Corporate and other unallocated expenses				(211,268)
Finance costs (other than interest on lease liabilities)				(540)
Profit before tax				<u>439,323</u>

### 3. SEGMENT INFORMATION (continued)

<b>As at</b>	Finished	Intermediates and	Total
<b>31 December 2022</b>	drugs	bulk medicines	RMB'000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Segment assets:</b>	996,973	1,222,758	2,219,731
<i>Reconciliation:</i>			
Assets held for sale	-	2,578	2,578
Corporate and other unallocated assets			<u>1,450,334</u>
Total assets			<u>3,672,643</u>
<b>Segment liabilities:</b>	291,842	376,957	668,799
<i>Reconciliation:</i>			
Corporate and other unallocated liabilities			<u>353,977</u>
Total liabilities			<u>1,022,776</u>
<b>As at</b>	Finished	Intermediates and	Total
<b>31 December 2021</b>	drugs	bulk medicines	RMB'000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Segment assets:</b>	924,331	1,141,107	2,065,438
<i>Reconciliation:</i>			
Assets held for sale	-	94,263	94,263
Corporate and other unallocated assets			<u>1,179,857</u>
Total assets			<u>3,339,558</u>
<b>Segment liabilities:</b>	143,851	362,776	506,627
<i>Reconciliation:</i>			
Corporate and other unallocated liabilities			<u>435,070</u>
Total liabilities			<u>941,697</u>

### 3. SEGMENT INFORMATION (continued)

Year ended	Finished	Intermediates		Total
		and bulk	Others	
<b>31 December 2022</b>	drugs	medicines	Others	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Other segment information</b>				
Share of losses of an associate	-	-	(61,905)	(61,905)
Impairment losses recognised in the statement of profit or loss	4,662	1,870	-	6,532
Depreciation and amortisation	51,994	14,416	-	66,410
Investments in an associate	-	-	25,345	25,345
Capital expenditure	136,729	94,540	-	231,269
Assets held for sale	-	2,578	-	2,578

Year ended	Finished	Intermediates		Total
		and bulk	Others	
<b>31 December 2021</b>	drugs	medicines	Others	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Other segment information</b>				
Share of losses of an associate	-	-	(46,418)	(46,418)
Impairment losses (reversed)/ recognised in the statement of profit or loss	(709)	405	-	(304)
Depreciation and amortisation	46,955	10,590	-	57,545
Investments in an associate	-	-	87,250	87,250
Capital expenditure	292,228	294,831	-	587,059
Assets held for sale	-	94,263	-	94,263

#### **Geographical information**

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

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	1,218,740	1,102,806
Other countries	58,942	62,349
	<u>1,277,682</u>	<u>1,165,155</u>

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

### 3. SEGMENT INFORMATION (continued)

#### (b) Non-current assets

The Group's operations are substantially based in Mainland China and 96% of the non-current assets, excluding deferred tax assets and an investment in an associate, of the Group are located in Mainland China. Therefore, no further analysis of geographical information is presented.

### 4. REVENUE, OTHER INCOME AND GAINS

An analysis of the Group's revenue is as follows:

	2022	2021
	RMB'000	RMB'000
Revenue from contracts with customers	<u>1,277,682</u>	<u>1,165,155</u>

#### **Revenue from contracts with customers**

##### (i) Disaggregated revenue information

For the year ended 31 December 2022

<u>Segments</u>	Finished drugs RMB'000	Intermediates and bulk medicines RMB'000	Total RMB'000
<b>Types of goods or services</b>			
Sale of pharmaceutical products	1,136,219	140,286	1,276,505
Rendering of pilot test services	1,022	155	1,177
Total revenue from contracts with customers	<u>1,137,241</u>	<u>140,441</u>	<u>1,277,682</u>
<b>Geographical markets</b>			
Mainland China	1,133,680	85,060	1,218,740
Other countries	3,561	55,381	58,942
Total revenue from contracts with customers	<u>1,137,241</u>	<u>140,441</u>	<u>1,277,682</u>
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	1,136,219	140,286	1,276,505
Services transferred over time	1,022	155	1,177
Total revenue from contracts with customers	<u>1,137,241</u>	<u>140,441</u>	<u>1,277,682</u>

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

##### Revenue from contracts with customers (continued)

##### (i) Disaggregated revenue information (continued)

For the year ended 31 December 2021

<u>Segments</u>	Finished	Intermediates	Total
	drugs	and bulk medicines	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Types of goods or services</b>			
Sale of pharmaceutical products	1,007,171	152,509	1,159,680
Rendering of pilot test services	1,981	3,494	5,475
Total revenue from contracts with customers	<u>1,009,152</u>	<u>156,003</u>	<u>1,165,155</u>
<b>Geographical markets</b>			
Mainland China	1,002,699	100,107	1,102,806
Other countries	6,453	55,896	62,349
Total revenue from contracts with customers	<u>1,009,152</u>	<u>156,003</u>	<u>1,165,155</u>
<b>Timing of revenue recognition</b>			
Goods transferred at a point in time	1,007,171	152,509	1,159,680
Services transferred over time	1,981	3,494	5,475
Total revenue from contracts with customers	<u>1,009,152</u>	<u>156,003</u>	<u>1,165,155</u>

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of pharmaceutical products	<u>14,451</u>	<u>8,469</u>

##### (ii) Performance obligations

Information about the Group's performance obligations is summarised below:

##### *Sale of pharmaceutical products*

The performance obligation is satisfied upon delivery of the pharmaceutical products and payment is generally due within 90 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with volume rebates which give rise to variable consideration subject to constraint.

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

##### Revenue from contracts with customers (continued)

##### (ii) Performance obligations (continued)

###### *Rendering of pilot test services*

The performance obligation is satisfied over time as services are rendered and short-term advances are normally required before rendering the services. Pilot test service contracts are for periods of one year or less, or are billed based on the time incurred.

The amounts of transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Amounts expected to be recognised as revenue:		
Within one year	29,658	14,451

All the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b><u>Other income</u></b>		
Government grants	18,753	7,597
Bank interest income	17,658	18,077
Loan interest income	1,717	1,735
Dividend income from financial assets at fair value through profit or loss	477	414
Rental income	213	281
Others	904	600
	39,722	28,704
<b><u>Gains</u></b>		
Gain on disposal of assets held for sale	39,670	-
Fair value gain on financial assets at fair value through profit or loss, net	7,204	5,560
Gain on sales of scrapped materials	344	1,245
Gain on termination of a lease	8	-
Gain on disposal of a subsidiary	-	99,069
Foreign exchange gains, net	-	997
Reversal of inventory provision	-	304
	47,226	107,175
	86,948	135,879

**5. OTHER EXPENSES**

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Foreign exchange losses, net	4,537	-
Write-down of inventories provision	4,097	-
Write-off of obsolete stocks	2,776	6,202
Impairment of trade receivables	2,435	-
Loss on disposal of items of property, plant and equipment	830	29,956
Donations	199	364
Others	672	770
	<u>15,546</u>	<u>37,292</u>

**6. FINANCE COSTS**

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on lease liabilities	75	101
Interest on discounted notes receivable	<u>296</u>	<u>540</u>
	<u>371</u>	<u>641</u>

## 7. PROFIT BEFORE TAX

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

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales*	504,131	483,893
Depreciation of property, plant and equipment	49,686	44,645
Depreciation of right-of-use assets**	3,435	3,236
Research and development costs:		
Amortisation of intangible assets***	4,679	3,396
Current year expenditure	<u>74,799</u>	<u>63,632</u>
	<u>79,478</u>	<u>67,028</u>
Lease payments not included in the measurement of lease liabilities	<u>2,040</u>	<u>1,020</u>
Auditors' remuneration:		
Statutory audit service	<u>2,200</u>	<u>2,204</u>
Employee benefit expense (including directors' and chief executive officer's remuneration):		
Wages and salaries	149,384	133,239
Equity-settled share option expense	(4,910)	4,328
Retirement benefits	10,542	9,404
Accommodation benefits	5,969	5,320
Other benefits	<u>22,645</u>	<u>19,732</u>
	<u>183,630</u>	<u>172,023</u>
Foreign exchange differences, net	4,537	(997)
Write-down/(reversal) of inventories provision	4,097	(304)
Impairment of trade receivables	2,435	-
Fair value gain on financial assets at fair value through profit or loss, net	(7,204)	(5,560)
Bank interest income	(17,658)	(18,077)
Gain on disposal of a subsidiary	-	99,069
Gain on disposal of assets held for sale	(39,670)	-
Loss on disposal of items of property, plant and equipment	<u>830</u>	<u>29,956</u>

\* The depreciation of RMB34,073,000 for the year (2021: RMB32,359,000) is included in "manufacturing costs".

\*\* The depreciation of right-of-use assets for the year is included in "Administrative expenses" on the face of the consolidated statement of profit or loss.

\*\*\* The amortisation of intangible assets amounted to RMB4,679,000 (2021: RMB3,396,000) for the year is included in "Research and development costs" on the face of the consolidated statement of profit or loss.



## 8. INCOME TAX

The major components of income tax expense for the years ended 31 December 2022 and 2021 are:

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
Charge for the year	60,287	78,704
Overprovision in prior years	277	520
Deferred income tax	<u>21,993</u>	<u>5,936</u>
Total tax charge for the year	<u>82,557</u>	<u>85,160</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 subsidiaries incorporated in the British Virgin Islands (the “BVI”) are not subject to income tax, as these subsidiaries do 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 profit tax rate of 16.5% (2021: 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 (2021: 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. The qualification was renewed in 2020 and Suzhou Dawnrays Pharmaceutical was entitled to continue to enjoy the beneficial tax rate of 15% as an HNTE for the years through 2020 to 2022 and would apply for renewal of the qualification every three years.

On 2 December 2019, Fujian Dawnrays Pharmaceutical Co., Ltd. (“Fujian Dawnrays”) was qualified as a HNTE of Fujian Province. As a result, Fujian Dawnrays had been entitled to a concessionary rate of income tax at 15% for three years commencing on 1 January 2019. The qualification was renewed in 2022 and Fujian Dawnrays was entitled to continue to enjoy the beneficial tax rate of 15% as an HNTE for the years through 2022 to 2025 and would apply for renewal of the qualification every three years.

All other subsidiaries in Mainland China were subject to corporate income tax at a rate of 25% in 2022.

## 8. 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:

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>438,408</u>	<u>439,323</u>
At the PRC's statutory rate	109,602	109,831
Tax effect of profits entitled to tax concession or lower tax rate enacted by local authority	(41,305)	(63,253)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	20,286	17,745
Adjustments in respect of current income tax of previous periods	277	520
Expenses not deductible for tax	12,963	8,617
Tax credit for qualified research and development costs	(10,591)	(8,801)
Tax credit for qualified equipment expenditure for HNTE	(7,982)	-
Tax losses not recognised	7,960	20,629
Tax losses utilised from previous periods	<u>(8,653)</u>	<u>(128)</u>
Tax charge at the Group's effective rate	<u>82,557</u>	<u>85,160</u>

## 9. DIVIDENDS

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interim – HK\$0.015 (2021: HK\$0.015) per ordinary share	20,173	18,600
Proposed final – HK\$0.073 (2021: HK\$0.065) per ordinary share	<u>95,975</u>	<u>79,355</u>
	<u>116,148</u>	<u>97,955</u>

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

## 10. 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 1,498,551,000 shares (2021: 1,497,543,000 shares) in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation 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:

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent	358,057	358,175
	<hr/>	<hr/>
	<u>Number of shares</u>	
	2022	2021
	Thousands	Thousands
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,498,551	1,497,543
Effect of dilution – weighted average number of ordinary shares:		
Share options	3,759	10,337
	<hr/>	<hr/>
	<u>1,502,310</u>	<u>1,507,880</u>

## 11. TRADE AND NOTES RECEIVABLES

	Notes	2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	(i)	211,724	180,478
Notes receivable	(ii)	194,022	166,761
		<hr/>	<hr/>
		405,746	347,239
Impairment		(2,896)	(461)
		<hr/>	<hr/>
		<u>402,850</u>	<u>346,778</u>

## 11. TRADE AND NOTES RECEIVABLES (continued)

Notes:

- (i) 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 ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2022	2021
	<i>RMB '000</i>	<i>RMB '000</i>
Trade receivables		
Outstanding balances with ages:		
Within 90 days	192,630	162,417
Between 91 and 180 days	10,075	11,717
Between 181 and 270 days	3,250	3,368
Between 271 and 360 days	1,741	1,388
Over one year	1,132	1,127
	<u>208,828</u>	<u>180,017</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	2022	2021
	<i>RMB '000</i>	<i>RMB '000</i>
At beginning of year	461	461
Impairment losses	<u>2,435</u>	<u>-</u>
At end of year	<u>2,896</u>	<u>461</u>

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

From 1 January 2018, the Group has applied the simplified approach to provide impairment for ECLs prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECLs below also incorporate forward-looking information. The impairment is determined as follows:

## 11. TRADE AND NOTES RECEIVABLES (continued)

Notes: (continued)

(i) (continued)

	2022	2021
Expected credit loss rate	1.37%	0.26%
Gross carrying amount (RMB'000)	211,724	180,478
Impairment (RMB'000)	2,896	461

- (ii) Notes receivable are held with a business model with the objective of both holding to collect contractual cash flows and selling as the Group sometimes endorses notes receivable to suppliers prior to their expiry date. These are classified and measured as debt instruments at fair value through other comprehensive income. Notes receivable are subject to impairment under the general approach. The Group estimated that the expected credit loss rate for notes receivable was minimal.

### Financial assets that are not derecognized in their entirety

As at 31 December 2022, the Group endorsed certain notes receivable accepted by banks in the PRC (the “Endorsed Notes”) with a carrying amount of RMB69,974,000 (2021: RMB45,670,000) 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 RMB44,570,000 (2021: RMB711,000) and RMB25,404,000 (2021: RMB44,959,000) as at 31 December 2022, respectively.

As at 31 December 2022, the Group discounted certain notes receivable accepted by banks in the PRC (the “Discounted Notes”) with a carrying amount of RMB6,434,000 (2021: RMB21,013,000). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Discounted Notes, and accordingly, it continued to recognize the full carrying amounts of the Discounted Notes and the associated short-term borrowings. Subsequent to the discounting, the Group does not retain any rights on the use of the Discounted Notes, including sale, transfer or pledge of the Discounted Notes to any other third parties. The aggregate carrying amount of short-term borrowings arising from the Discounted Notes was RMB6,434,000 as at 31 December 2022.

### Financial assets that are derecognized in their entirety

At 31 December 2022, the Group discounted certain note receivable accepted by banks in the PRC (the “Derecognized Notes”) with a carrying amount of RMB63,126,000 (2021: RMB21,507,000). In the opinion of the directors, the risk of the Group being claimed by the holders of the Derecognized Notes is remote in the absence of a default of the accepted banks. The Group has not retained the substantial risks and rewards, which include default risks relating to such Derecognized Notes. The Group has transferred substantially all risks and rewards relating to the Derecognized Notes. Accordingly, it has derecognised the full carrying amounts of the Derecognized Notes. The maximum exposure to loss from the Group's continuing involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's continuing involvement in the Derecognised Notes are not significant.

## 12. TRADE AND NOTES PAYABLES

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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Outstanding balances with ages:		
Within 90 days	169,248	65,220
Between 91 and 180 days	54,128	77,231
Between 181 and 270 days	571	215
Between 271 and 360 days	83	236
Over one year	43	310
	<u>224,073</u>	<u>143,212</u>

The trade payables are non-interest-bearing and are normally settled on 90-day terms. During the year ended 31 December, the aggregate carrying amount of the trade payables settled by the Endorsed Notes to which the suppliers have recourse was RMB44,570,000.

# CHAIRMAN'S STATEMENT

## GROUP RESULTS

For the year ended 31 December 2022, the Group recorded revenue of approximately RMB1,277,682,000 (2021: RMB1,165,155,000), representing an increase of 9.7% as compared with 2021. Profit attributable to owners of the parent was approximately RMB358,057,000 (2021: RMB358,175,000), representing a decrease of 0.03 % as compared with 2021.

Profit attributable to owners of the parent included a loss of RMB78,000 on the disposal by the Group of a 35% equity interest in Su Zhou Xinshen Pharmaceutical Science and Technology Co., Ltd.; a loss of RMB61,905,000 on the investment in AD Pharmaceuticals Co., Ltd., an associated company (2021: RMB46,418,000), a gain of RMB39,748,000 on the disposal of the assets of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. while it was a loss of RMB29,561,000 on the disposal of the assets in 2021. If the above factors are excluded, the operating profit would be RMB380,292,000 (2021: RMB335,085,000), representing an increase of 13.5% as compared with 2021.

The increase in the revenue and operating profits was mainly due to a significant increase in the sales volume of products of the Group for which bids were won in the centralized procurement of drugs in China and alliance member regions (collectively referred to as "Centralized Procurement"), namely Atorvastatin Calcium Tablets (10mg), Entecavir Dispersible Tablets (0.5mg), Levocetirizine Dihydrochloride Tablets (5mg) and other specific medicines as compared with 2021.

## FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK\$0.073 per share for the year ended 31 December 2022 (2021: HK\$0.065), totaling approximately HK\$109,412,000 (2021: approximately HK\$97,392,000) (equivalent to approximately RMB95,975,000 (2021: approximately RMB79,355,000)), to the shareholders whose names appeared in the register of members on Friday, 2 June 2023 subject to the approval of the shareholders at the forthcoming 2023 Annual General Meeting (the "2023 AGM").

The dividend for the year will be HK\$0.088 per share, comprising the proposed final dividend of HK\$0.073 per share and the interim dividend of HK\$0.015 per share paid on 5 October 2022. The annual dividend payout ratio was approximately 32.4%, representing a year-on-year increase of 5.1 percentage points.

## BUSINESS REVIEW

In 2022, the uncertain external geopolitical situation, the interest rate hike cycle of the economy, sporadic cases of COVID-19 in China, and the spread of COVID-19 throughout China from December 2022 to January 2023 had a certain impact on the Group's construction projects, production and operation activities. Thanks to the concerted efforts of all employees, the Company maintained its operation. The progress in the projects of the Company's indirect subsidiaries, Lanzhou Dawnrays Pharmaceutical Co., Ltd. ("Lanzhou Dawnrays") and Suzhou Dawnrays Pharmaceutical Co., Ltd. ("Suzhou Dawnrays Pharmaceutical") on Shanfeng Road, were also continuously affected as successive infection of employees of external contractors with COVID-19. Fortunately, the continuous support of the local government decreased the impact of the relocation and production reduction.

During the reporting period, the sales amount of specific medicines of the Group increased considerably year on year, mainly due to the continuous rise in the sales amount of Entecavir Dispersible Tablets and Atorvastatin Calcium Tablets, in respect of which bids were won in the Centralized Procurement. In addition, the flare-ups of the pandemic increased the demand for anti-pandemic materials. The Group's Cetirizine Hydrochloride Tablets ("Xikewei (西可韋)"), Levocetirizine Dihydrochloride Tablets and Loxoprofen Sodium Tablets were recommended drugs to relieve symptoms of COVID-19. Loxoprofen Sodium Tablets, an analgesic-antipyretic drug, was designated by Fujian Putian Government, as a product the supply of which was guaranteed. Therefore, there was an increase in the sales volumes and sales amount of the above three products in 2022. The overall sales amount of the Group's anti-hypertensive drug "An" (安) series product also increased. Of which, the sales amount of Amlodipine Besylate Tablets ("Anneizhen (安內真)") was slightly increased as compared with the same period of last year, while the sales volumes and sales amount of both Telmisartan Tablets ("Anneiqiang (安內強)") and Losartan Potassium and Hydrochlorothiazide Tablets ("Anneixi (安內喜)") had a year-on-year significant growth.

In terms of bulk medicines, in addition to the government's continuous strict control over the clinical use of antibiotics, there was a year-on-year decrease in domestic and export sales of cephalosporin intermediates, bulk medicines and powder for injection of the Group due to the continuation of COVID-19 in the world and a decrease in the production volume as a result of a decline in the number of infected patients in the hospitals as well as the relocation of projects. However, the sales volume and amount of cephalosporin for oral in the retail business increased by 33.9% and 34.1% respectively as the bids were won for Cefprozil Tablets in many provinces.

During the reporting period, due to the impact on the clinical progress, Phase III and Phase II clinical work remained in progress respectively for clinical trials for Class I new drug registration of monoclonal antibody agent ebronucimab (AK102) (PCSK9 monoclonal antibody for the treatment of acquired and hereditary hyperlipidemia) and Pulocimab (AK109) (VEGFR-2 monoclonal antibody for the treatment of advanced solid tumors), both of which are monoclonal antibody agents developed by AD Pharmaceuticals Co., Ltd. ("AD Pharmaceuticals"), a joint venture enterprise established by the Group. In May 2022, the Sino-Singapore Guangzhou Knowledge City of AD Pharmaceuticals with the production capacity of 8,000 liters was put into operation, thus making proper preparation for the commercialization of products. Due to an increase in the expenses as a result of high clinical expenses, the Group's share of the loss incurred by AD Pharmaceuticals was RMB61,905,000 in 2022. According to clinical trial research information and the project progress known to the Group, the Group remains cautiously optimistic about the investment prospect. In order to support project development, the Group signed a shareholder loan agreement with AD Pharmaceuticals in October 2022 and would provided AD Pharmaceuticals with a loan of RMB105,000,000 paid in three instalments in accordance with the agreement. For details of the loan, please see the announcement published by the Company on the website of the Stock Exchange on 24 October 2022.

As previously disclosed by the Company, due to land replotting requirements of the local government of the place where the enterprise is located or the land environment replanning requirements of the local government and in consideration of the long-term development strategy of the Company, the antibiotic production workshop of Suzhou Dawnrays Pharmaceutical will be relocated from the factory on Tianling Road to the new factory on Shanfeng Road, and the office building was relocated to the factory on Minfeng Road in early 2022. Since the solvent recovery workshop of the new factory on Shanfeng Road was put into operation in 2022, the Group sold a 35% equity interest in Su Zhou Xinshen Pharmaceutical Science and Technology Co., Ltd. (formerly known as Su Zhou Dawnrays Pharmaceutical Science and Technology Co., Ltd.) to an independent third party on 26 January 2022. For details, please see the announcement published by the Company on the website of the Stock Exchange on 26 January 2022. Dawnrays (Nantong) Pharmaceutical Science and Technology Co.,



Ltd., an indirect subsidiary of the Company, received a total compensation of RMB82,433,000 from the government due to relocation. The company's total gain on disposal of assets were RMB10,187,000. The plant and land were returned to the local government, and all government compensations were received in January 2023. Lanzhou Dawnrays Pharmaceutical Co., Ltd., located in the Chemical Industry Park, Lanzhou New District, was completed and put into operation. The solvent recovery workshop of the factory of Suzhou Dawnrays Pharmaceutical on Shanfeng Road was put into operation, and other workshops were completed and were under pre-production validation in accordance with regulatory requirements. The management of the Group is carrying out close follow-up and enhancing management to reduce the operating risks from the relocation.

In terms of research and development, in early 2022, a greater demand was put on the pharmaceutical industry, according to the overall requirements of China's 14th Five-Year Plan and 2035 Long-Range Objectives, and in consideration of the pharmaceutical industry policies issued and implemented by the ministries and commissions of the national pharmaceutical industry. With the theme of promoting high-quality development, China comprehensively improved the modernization of the pharmaceutical industry chain, achieved a stable and controllable supply chain, accelerated innovation-driven development and transformation, built new advantages in international competition, and improved the medical supply guarantee system, so as to better meet the diversified and multi-level health needs of the people and comprehensively promote the construction of a healthy China. The Group closely followed the national policies and the development of the Company. Suzhou Dawnrays Pharmaceutical established the Advanced Technology Research Institute in June 2022 as an innovation carrier, to optimize the research and development resources in the Group and integrate the research and development teams of its indirect wholly-owned subsidiaries Suzhou Dawnrays Pharmaceutical Co., Ltd., Fujian Dawnrays Pharmaceutical Co., Ltd. and Lanzhou Dawnrays Pharmaceutical Co., Ltd., and its indirect non-wholly-owned subsidiary Nanjing PharmaRays Science and Technology Co., Ltd., and to attract external talents or cooperate with experts from universities or other research and development teams, thus realizing the integration of internal and external resources of the Group and building a new drug R&D and information sharing center of the Group. At present, it is still based on the generic drug R&D system and mainly focuses on R&D projects with high profit levels such as improved innovative drugs and first generic drugs, and will further carry out transformation towards innovative drugs.

In addition, in 2022, the Group reorganized its organizational structure. Dawnrays International Co., Ltd., an indirect subsidiary of the Company transferred its equity interests in Fujian Dawnrays and Lanzhou Dawnrays to Suzhou Dawnrays Pharmaceutical to establish "Suzhou Dawnrays Domestic Headquarters" so as to facilitate unified control and improve efficiency, and contribute to winning bids in the future national centralized procurement of drugs. The purchase by more hospitals of the products for which the bids are won will make more patients know the products of the Group, thus improving the brand of Dawnrays Pharmaceutical. This facilitates the international development of the Group in the long run.

## **OUTLOOK**

In 2023, with the comprehensive adjustment of the central government's pandemic prevention and control policy, the pharmaceutical industry, pharmaceutical business, pharmaceutical retail and grass-roots medical institutions entered a new stage. The medical demand is expected to gradually return to normal growth. With the normalization of adjustment to the list of drugs covered by medical insurance and the gradual clarification of rules for negotiation on drugs covered by medical insurance, the adjustment to the list of drugs covered by medical insurance supports innovative drugs and guides pharmaceutical enterprises to enhance innovation and improve their competitiveness on the demand side. In generic drugs, national and regional Centralized Procurement have been steadily promoted, and the price reduction has remained stable. However, the rules for renewal of contracts in the

Centralized Procurement have been changed to comprehensive review and selection of multiple winners, thus the competition has become more intense. Meanwhile, the retail market prices are also affected by Centralized Procurement prices. In the face of the central government's development plan of accelerating quality, efficiency and momentum change, Dawnrays Pharmaceutical needs to accelerate its progress in research and development, production and sales, so as to adapt to and cooperate with the national planning and development. With the completion of the two relocation projects and the obtaining of the approval for production after verification, the Group has better production hardware and software, which contributes to enhancing various functions to cope with the wave of national healthcare reform and industry development, promotes the construction of high-end, intelligent, green and international enterprises, and enhances the Group's competitiveness to face the impact of healthcare reform and the general trend of survival of the fittest. Dawnrays Pharmaceutical will continue to recruit more talents for new ideas to the Group, in the wave of healthcare reform. Dawnrays Pharmaceutical will continue to improve its operating efficiency based on the principle of product quality first and sound financial strength, will contribute to the sustainable development of the Group and create long-term value for shareholders.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **REVIEW OF OPERATIONS**

During the review period, as the COVID-19 outbreak in China was under normalized management, the overall situation was stable despite the regional outbreak. The economy of China recovered and the pharmaceutical market was stable with movement in a positive direction. The Group won the bids for a number of products in the national centralized procurement and the centralized procurement of alliance member regions, which drove the continuous growth in the secondary and tertiary terminal markets. With the joint efforts of all employees of the Group, the overall sales in 2022 increased by 9.7% as compared with the same period of the previous year. Of which, the sales volume of anti-hypertensive drugs in "An" (安) series medicines decreased by 7.7% as compared with the same period of 2021, but the sales amount increased by 5.5% due to the slight increase in the sales unit price; the sales volume and amount of Fujian Dawnrays series products which are mainly used for treating hyperlipidemia increased by 22.7% and 17.2% respectively, as compared with the same period of 2021; the sales volume and amount of anti-allergic drugs "Xikewei" (西可韋) and "Xikexin" (西可新) increased by 11.0% and 17.7% respectively, as compared with the same period of 2021; the sales volume and amount of Entecavir Dispersible Tablets, an anti-HBV drug respectively increased by 19.5% and 47.0% as compared with the same period of 2021.

Among the antibiotic series products, as some products won bids in the alliance centralized procurement, the sales volume and amount of cephalosporin for oral increased by 33.9% and 34.1% respectively as compared with the same period of 2021. However, due to the relocation of the factories of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. and Suzhou Dawnrays Pharmaceutical Co., Ltd. on Tianling Road, the sales volume and amount of cephalosporin intermediates and bulk medicines decreased by 23.4% and 10.2% respectively, as compared with the same period of 2021. The sales volume of powder for injections was increased by 10.6% compared with the same period of 2021, but the sales amount decreased by 3.8% due to changes in sales varieties.

During the period, the Group faced that several companies won in the Centralized Procurement in alliance member regions. In response to the rapid changes in the market, the marketing management personnel appropriately adjusted the Group's product marketing ideas and sales strategies and strengthened the allocation of resources to explore new markets. Meanwhile, the Group made market

development arrangements for new products, and strove to achieve reasonable growth in the sales of its drugs in 2023, so as to contribute to the profit of the Group.

#### *ANTI-HYPERTENSIVE PRODUCTS*

The Group has advantages in anti-hypertensive series of products. Through more than 20 years of deep engagement of the Group in the pharmaceutical market, the series of products had a good brand reputation among doctors and patients with hypertension. Based on the Group's integration of the survey data of market research institutions, "Anneizhen" (安内真) was ranked in the leading position among similar products on the second and third market terminals in many cities and provinces in terms of sales, and gained considerable market shares. Moreover, another anti-hypertensive drug "Anneixi" (安内喜) (Losartan Potassium and Hydrochlorothiazide Tablets) of the Group was ranked among the top domestic brands in terms of sales and became the Group's second star product for anti-hypertension. The sales of the series of products were RMB549,229,000 in 2022 (2021: RMB520,414,000), accounting for 43.0% of the sales of the Group. In the future, the Group's marketing management team will focus more on brand planning, channel building, price adjustment and academic promotion of the "An" (安) series products, strengthen the access design of products for different markets by closely following up national policies related to chronic disease management, and further explore the new market.

#### *ANTI-HYPERLIPIDEMIC PRODUCTS*

Anti-hyperlipidemic products are products newly developed by the Group. During the period, with the national centralized procurement and centralized procurement in alliance member regions, there was an increase in the sales of Fujian Dawnrays's Atorvastatin Calcium Tablets. The sales of the anti-hyperlipidemic products were RMB270,368,000 (2021: RMB255,059,000), accounting for 21.2% of the sales of the Group. The Group ranked in leading position in the sales market in China in terms of such sales.

#### *ANTIVIRAL PRODUCTS*

The antiviral products are covered by the traditional treatment sector of the Group. There was a steady increase in the domestic market share of Entecavir Dispersible Tablets of the Group with the "unique cyclodextrin inclusion technology". During the period, the sales of the products in China were RMB133,005,000 (2021: RMB90,503,000), accounting for 10.4% of the sales of the Group, which was better than expectations, due to the increasing price winning the bid for centralized procurement of drugs in national alliance member regions. The Group ranked in leading position in the sales market in China in terms of such sales.

#### *PRODUCTS FOR GOUT TREATMENT*

In order to enrich the Group's product line, Suzhou Dawnrays Pharmaceutical obtained the approval of the change of the marketing authorization holder of Febuxostat Tablets (40mg, 80mg) for gout treatment in 2021. The product was marketed during the period and won the bids in many cities and provinces' Centralized Procurement. The product will bring a new source of profit for the Group in the future.

#### *INTERMEDIATES AND BULK MEDICINES*

During the period, the bulk medicines production base of Lanzhou Dawnrays was completed and put into operation. The construction of Suzhou Dawnrays Pharmaceutical relocation project is being actively promoted. Related review and filing work for bulk medicines was actively carried out by the Group to further increase the market share, thus laying a solid foundation for the future sales of bulk medicines and intermediates.

### *PRODUCT RESEARCH AND DEVELOPMENT*

In the second half of 2022, the Group established the “Advanced Technology Research Institute of Suzhou Dawnrays Pharmaceutical” on the basis of its own research and development center, to coordinate with and manage the technical R&D teams of the subsidiaries of Dawnrays Group, integrate the technical forces in the R&D of generic drugs and new drugs, and improve the Group’s R&D level. Meanwhile, the Institute will become a cooperation platform for the Group to introduce new drug research and development.

Apart from the description in the following section of “NEW PRODUCTS AND PATENT LICENSING”, the Group’s ongoing projects cover the therapeutic areas of the circulatory system, digestive system, endocrine system, ophthalmology, dermatology, pediatrics, orthopedics, gynecology, antiviral drugs, etc., and involve bio-pharmaceuticals, polypeptide drugs, chemical pharmaceuticals, etc. The ongoing research projects will be regularly evaluated and adjusted according to market forecasts, competitors’ conditions and technological development, so as to maximize the benefits of research and development resources. The Group will continuously invest more resources in the research and innovation of production technology and products, for developing generics of the system specific medicines, exploring Class 3 drugs and some innovative drugs and seeking various scientific research cooperation opportunities to optimize product structure and profit base.

### *CONSISTENCY EVALUATION*

As at 31 December 2022, according to statistics by product specification, the Group conducted quality and efficacy research into 31 varieties, the applications for 14 types of drugs (namely Entecavir Dispersible Tablets (0.5mg), Amlodipine Besylate Tablets (5mg), Amlodipine Besylate Tablets (2.5mg), Levocetirizine Dihydrochloride Tablets (5mg), Cetirizine Hydrochloride Tablets (10mg), Metformin Hydrochloride Tablet (250mg), Azithromycin Tablets (250mg), Clarithromycin Tablets (250mg), Telmisartan Tablets (80mg), Cefprozil Tablets (250mg), Cefoperazone Sodium and Sulbactam Sodium for Injection (1.0g), Cefoperazone Sodium for Injection (1.0g), Azithromycin Suspension (0.1g) and Losartan Potassium and Hydrochlorothiazide Tablets (50mg/12.5mg)) were approved. The applications for consistency evaluation for 7 varieties have been submitted to the Center for Drug Evaluation, NMPA. Moreover, pharmaceutical research into 10 of such varieties is ongoing.

### *REORGANIZATION OF ORGANIZATIONAL STRUCTURE*

During the period, the Group established Suzhou Dawnrays Domestic Headquarters to coordinate the management of subsidiaries in China, diagnose and optimize the internal management of the Group with a view to improving work efficiency and achieving agile operations.

### *OTHER MATTERS*

During the period, the Group continued improving production, product quality, human resources, internal audit 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 2022, there was a decrease of 19.4% in the production volume and 23.4% in the sales volume of intermediates and bulk medicines of the Group, as compared with 2021. There was an increase of 20.2% in the production volume and an increase of 10.6% in the sales volume of cephalosporin powder for injection, as compared with last year. The decreases in the production and sales volumes of intermediates and bulk medicines were mainly due to the impact of relocation of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. and the factory of Suzhou Dawnrays Pharmaceutical Co., Ltd. on Tianling Road, while the increase in the sales volume of powder for injection was due to winning the bid for compound cefoperazone in certain

provinces. There was an increase of 6.7% in the production volume and a rise of 7.8% in the sales volume of solid-dosage-forms as compared with the same period of last year. In terms of international business, the Group's sales in overseas markets declined due to the COVID-19 outbreak and Dawnrays Nantong discontinued production for relocation. The sales of overseas markets accounted for 4.6% of the total sales of the Group.

## **NEW PRODUCTS AND PATENT LICENSING**

In 2022, the Group applied to the Center for Drug Evaluation, CFDA for the registration of a total of 9 varieties, with supplementary applications (consistency evaluation) for 7 varieties, and registration application for 1 bulk medicines, and 1 Class 4 chemical medicines. In 2022, the Group obtained 1 drug production approval, 5 consistency evaluation approvals and 2 supplementary application approvals.

In 2022, the Group obtained a total of 2 invention patent certificates

“The preparation method for a kind of cefotaxime sodium”, patent number: ZL202110257891.9

“Metformin Hydrochloride Sustained-Release Tablets and its preparation method”, patent number: ZL202110928324.1

## HONORS AWARDED TO THE GROUP IN 2022

Time of Awards	Honors
September 2022	Fujian Dawnrays Pharmaceutical Co., Ltd. was awarded the certificate of “Level III Enterprise of Safety Production Standardization (Pharmaceutical Industry)” by the Putian Emergency Management Association.
October 2022	Suzhou Dawnrays Pharmaceutical Co., Ltd. was recognized as the “Regional Headquarters of Multinational Corporations in Suzhou City” by the Suzhou Bureau of Commerce.
December 2022	Suzhou Dawnrays Pharmaceutical Co., Ltd. was recognized as “Suzhou Headquarter Enterprise” by the Suzhou Headquarter Economy Development Leading Group Office. Suzhou Dawnrays Pharmaceutical Co., Ltd. was recognized as the “Regional Headquarters of Multinational Corporations in Jiangsu Province” by the Department of Commerce of Jiangsu Province.
January 2023	Fujian Dawnrays Pharmaceutical Co., Ltd. was awarded the “2022 Outstanding Economic Contribution” award by Putian Municipal Party Committee and Putian Government Fujian Dawnrays Pharmaceutical Co., Ltd. was granted the “First Prize for Enterprises with Outstanding Economic Contribution in 2022” by the CPC Committee of Licheng District and the People’s Government of Licheng District.
February 2023	Suzhou Dawnrays Pharmaceutical Co., Ltd. was rated among the “Top 10 Open Enterprises” and the “Top 30 Enterprises in Terms of Tax Contributions” and was recognized as a “Leading Enterprise in Terms of Green Development” by Suzhou Wuzhong District Committee of the Communist Party of China and Suzhou Wuzhong District People’s Government in 2022 respectively. Suzhou Dawnrays Pharmaceutical Co., Ltd. was recognized as the “Leading Force, Enterprise with High-quality Pharmaceutical Development Achievements in China (2022)” by the Organizing Committee of the National Pharmaceutical Economic Information Conference. With regard to “Xikewei” (西可韋) (Cetirizine Hydrochloride Tablets), Suzhou Dawnrays Pharmaceutical Co., Ltd. was recognized as the “Leading Force, Brand with High-quality Pharmaceutical Development Achievements in China (2022)” by the Organizing Committee of the National Pharmaceutical Economic Information Conference.

## FINANCIAL REVIEW

### SALES AND GROSS PROFIT

For the year ended 31 December 2022, the Group recorded a turnover of approximately RMB1,277,682,000, increased by RMB112,527,000 or 9.7% compared with last year, of which the turnover of intermediates and bulk medicines was RMB140,441,000, decreased by RMB15,562,000 or 10.0% compared with last year. The turnover of finished drugs was RMB1,137,241,000, increased by RMB128,089,000 or 12.7% compared with last year. The decrease in the sales of intermediates and bulk medicines was mainly due to the impact of the COVID-19 and the decrease in the intermediates business volume as a result of the relocation of Dawnrays Nantong. The increase in the sales of finished drugs was mainly due to winning the bids for the four products of the Group in the national centralized procurement of drugs, and the resulting in growth of the second and third market terminals.

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 RMB1,137,241,000. Taking into account of the total turnover, sales amount of finished drugs was approximately 89.0%, increased by 2.4 percentage points compared with last year. Sales amount of system specific medicines accounted for 97.2% of sales of finished drugs.

Gross profit was approximately RMB773,551,000, increased by RMB92,289,000 compared with last year, representing an increase of 13.5%. Gross profit margin increased by approximately 2 percentage points to 60.5% from 58.5% as in last year. Mainly due to the Group's production costs continuously decreased with the full utilization of production capacity, and the impact of the increase in the sales proportion of system specific medicines.

## TABLE OF TURNOVER ANALYSIS – BY PRODUCT

PRODUCT	TURNOVER			SALES BREAKDOWN		
	(RMB'000)	(RMB'000)	(RMB'000)	(%)	(%)	Percentage
	2022	2021	changes	2022	2021	points changes
Intermediates and Bulk Medicines	140,441	156,003	-15,562	11.0	13.4	-2.4
Finished Drugs	1,137,241	1,009,152	128,089	89.0	86.6	2.4
Overall	1,277,682	1,165,155	112,527	100.0	100.0	-

## EXPENSES

During the year, the total expenses incurred were approximately RMB360,186,000, representing an increase of RMB28,786,000 from RMB331,400,000 in the previous year, and accounted for 28.2% of the turnover (2021: 28.4%). As the COVID-19 outbreak in China was under normalized management, the Group resumed various sales and promotion activities and enhanced the development of the second and third terminal markets. The selling expenses increased by RMB33,703,000 as compared with last year, and the selling expense ratio was 11.2%. The administrative expenses increased by RMB4,649,000 as compared with last year, mainly due to the increase in depreciation of Suzhou Dawnrays Pharmaceutical and increase in the administrative expenses of Lanzhou Dawnrays. Finance expenses were RMB371,000, representing a decrease of RMB270,000 as compared with the previous year. Research and development expenses increased by RMB12,450,000 as compared with the previous year. Other expenses decreased by RMB21,746,000 as compared with last year, mainly because there was a loss of RMB29,561,000 on disposal of Dawnrays Nantong assets in last year.

## SEGMENT PROFIT

For the year ended 31 December 2022, the segment profit from the finished drugs segment was approximately RMB608,806,000, representing an increase of RMB62,554,000 compared with RMB546,252,000 in 2021, mainly due to increase in the sales of finished drugs. The intermediates and bulk medicines had segment loss of RMB17,775,000 while it was segment loss of RMB2,296,000 in 2021. The loss was mainly attributable to the impact of Lanzhou Dawnrays' small output and high production costs.

## **INTERESTS AND RIGHTS IN ASSOCIATE**

During the year, AD Pharmaceuticals Co., Ltd. (“AD Pharmaceuticals”), which is invested by Dawnrays Biotechnology Capital (Asia) Ltd. (“Dawnrays Biotechnology”), a subsidiary of the Group, conducted Phase III clinical trial of monoclonal antibody agent AK102 for the treatment of acquired and inherited hyperlipidemias and Phase II clinical trial of monoclonal antibody agent AK109 for the treatment of advanced solid tumors. The China-Singapore Guangzhou Knowledge City Base of AD Pharmaceutical commenced operation in May 2022 with a production capacity of 8,000L (total planning capacity 16,000L). Dawnrays Biotechnology has invested a total of RMB185,000,000. Due to the business operation and increase clinical development of AD Pharmaceuticals and the development of the industrialization base, the Group signed a shareholder loan agreement with AD Pharmaceuticals in October 2022 and would provide AD Pharmaceuticals with a loan of RMB105,000,000 paid in three instalments. For details of the loan, please see the announcement published by the Company on the website of the Stock Exchange on 24 October 2022. As the pandemic affected the progress in reporting external debts. Payment of the first instalment of the loan amounting to RMB31,500,000 was postponed to January 2023, and the second instalment of the loan amounting to RMB35,000,000 was provided to AD Pharmaceuticals in February 2023 in accordance with the agreement. Together with the loan of RMB49,000,000 paid in 2021, the accumulated loan to AD Pharmaceutical would be RMB154,000,000. For the year ended 31 December 2022, the R&D and administrative expenses occurred by AD Pharmaceuticals totaled approximately RMB176,871,000. As a result, in proportion to the investment percentage, the Group shared an investment loss of approximately RMB61,905,000, while it was RMB46,418,000 in 2021.

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

For the year ended 31 December 2022, profit attributable to owners of the parent amounted to approximately RMB358,057,000, representing a slightly decrease of RMB118,000 or 0.03% compared with RMB358,175,000 in last year. During the year, the Group disposed 35% equity interest in Su Zhou Xinshen Pharmaceutical Science and Technology Co., Ltd. with a nominal loss of RMB78,000, a gain of RMB39,748,000 on Dawnrays Nantong’s assets disposal (2021: loss of RMB29,561,000 on assets disposal), share of loss of RMB61,905,000 for the investment in AD Pharmaceuticals (2021: RMB46,418,000). The Group had a gain on disposal of 65% of equity interests in Su Zhou Dawnrays Pharmaceutical Science and Technology Co. Ltd. RMB99,069,000 in 2021. Excluding the above factors, the actual operating profit attributable to owners of the parent was RMB380,292,000 (2021: RMB335,085,000), increased by 13.5% compared with last year.

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

As at 31 December 2022, net assets attributable to owners of the parent were approximately RMB2,641,956,000. 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 13.6% (2021: 15.0%). The current ratio and quick ratio was 1.87 and 1.61 respectively. The turnover days for trade receivables were approximately 55 days. Turnover days for trade receivables including bills receivables were 106 days. Turnover days for inventory were approximately 159 days.



## FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2022, the Group had financial assets at fair value through profit or loss including:

- (i) invested in certain Hong Kong public listed shares amounted approximately RMB10,500,000 (31 December 2021: approximately RMB6,933,000);
- (ii) purchased certain wealth management products (all were structured deposits) of approximately RMB170,000,000 (31 December 2021: RMB160,000,000) of floating interest rate principal-preservation type with annual interest rate from 0% to 5.0% from 6 good credit worth banks in China. The expected yield would be approximately RMB857,000 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.

As at 31 December 2022, there was no investment in financial bonds (31 December 2021: RMB40,463,000). The above mentioned financial assets at fair value through profit or loss amounted to approximately RMB181,357,000 (31 December 2021: approximately RM208,184,000), representing approximately 4.9% (31 December 2021: 6.2%) of the total assets of the Group. For the year ended 31 December 2022, the Group recorded net gain of approximately RMB7,204,000 (2021: RMB5,560,000) on the financial assets at fair value through profit or loss. The Board believes that the investment in equity investments and financial assets can diversify the investment portfolio of the Group and achieve a better return to the Group in future.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the Group had cash and bank balance approximately RMB811,682,000 (as at 31 December 2021: RMB577,744,000). During the year, the net cash inflows from operating activities was approximately RMB434,266,000 (2021: RMB393,139,000). Net cash outflows from investing activities was approximately RMB175,013,000 (2021 net cash outflows: RMB284,202,000). Net cash outflows from financing activities was approximately RMB92,701,000 (2021: RMB129,754,000).

As at 31 December 2022, the Group had aggregate bank facilities of approximately RMB1,370,000,000 (as at 31 December 2021: RMB1,100,000,000). As at 31 December 2022, the Group's interest-bearing bank and other borrowings was RMB6,434,000 (as at 31 December 2021: RMB21,013,000), and the debt ratio (defined as sum of interest-bearing bank borrowings over total assets) of the Group was 0.18% (as at 31 December 2021: 0.6%). The above mentioned bank and other borrowings' interest rate were fixed ranging from 1.10% to 1.55%.

As at 31 December 2022, the Group had trade receivables of approximately RMB208,828,000 (as at 31 December 2021: RMB180,017,000), increased by 16.0% compared to 2021, mainly due to the impact of increase in sales.

As at 31 December 2022, the inventory balance of the Group was approximately RMB241,746,000 (as at 31 December 2021: RMB203,476,000), representing an increase of RMB38,270,000 as compared with 2021, mainly due to the increase in the stocking of bulk medicines in response to the relocation of the factory of Suzhou Dawnrays on Tianling Road.

As at 31 December 2022, the Group's contracted but not provided for plant and machinery capital commitments amounted to approximately RMB110,318,000 (as at 31 December 2021: RMB239,908,000), which was mainly related to Suzhou Dawnrays Pharmaceutical relocation

construction project and Lanzhou Dawnrays intermediates and bulk medicines production base project.

## **SUBSTANTIAL INVESTMENT**

Nanjing PharmaRays, a majority-owned subsidiary of the Group and a research and development company, owned as to 65% by Suzhou Dawnrays Pharmaceutical, had the registered capital of RMB50,000,000, and Suzhou Dawnrays Pharmaceutical made a capital contribution of RMB32,500,000, in accordance with the joint venture agreement. As at 31 December 2022, the registered capital subscribed by the other shareholder amounted to RMB17,500,000, of which RMB17,000,000 was paid.

Due to the urban planning adjustment of Wuzhong Economic and Technological Development Zone by the Suzhou Municipal People's Government, the factory of Suzhou Dawnrays Pharmaceutical located at Wuzhong Economic and Technological Development Zone will be relocated from Tianling Road to Shanfeng Road of Wusongjiang Chemical Industrial Park in Wuzhong Economic and Technological Development Zone. Suzhou Dawnrays Pharmaceutical and the local government signed a relocation compensation agreement on 20 December 2017. The agreed relocation compensation amounted to approximately RMB351,200,000. As at 31 December 2022, Suzhou Dawnrays Pharmaceutical received the relocation compensation of RMB175,595,000. The planned investment in the project was RMB448,000,000. The construction of the solvent recovery workshop of the factory at Shanfeng Road was completed and put into operation. Other production workshops had been completed and are undergoing pre-production verification. During the year, Dawnrays International made a capital contribution of US\$15,000,000 to Suzhou Dawnrays Pharmaceutical.

On 26 January 2022, the Group and Suzhou Rongxin Construction Development Co., Ltd. entered into an agreement, pursuant to which the company sold 35% of equity interest in Su Zhou Xinshen Pharmaceutical Science and Technology Co., Ltd. (formerly known as Su Zhou Dawnrays Pharmaceutical Science and Technology Co., Ltd.), with a nominal loss of RMB78,000. Further details of which were set out in the Company's announcement dated 26 January 2022.

Due to the planning adjustment in Yangkou Chemical Industrial Park by the Rudong County People's Government of Nantong City, Dawnrays Nantong signed a relocation compensation agreement with the local government on 30 December 2019, and the compensation was RMB82,433,000. The gain on disposal of assets of the company totalled RMB10,187,000. As at 31 December 2022, Dawnrays Nantong received the compensation of RMB25,880,000, the remaining amount was received in January 2023. As at 31 December 2022, the plant and land were returned to the local government.

Lanzhou Dawnrays Pharmaceutical Co., Ltd., the intermediates and bulk medicines production base of the Group was established on 30 December 2019 with registered capital USD50,000,000. During the year, the registered capital was increased to USD80,000,000. In July 2022, after Dawnrays International acquired 3.125% of the shares of Lanzhou Dawnrays held by Xiangbei Welman Pharmaceutical Co., Ltd. (湘北威爾曼製藥股份有限公司) with USD1,291,490, the Group wholly owns Lanzhou Dawnrays. The main products of Lanzhou Dawnrays are cephalosporin bulk medicines and intermediates, system specific bulk medicines, raw materials of enzyme inhibitors, and raw materials of health supplements. The planned investment in the project was RMB430,000,000. The construction of the project was completed and put into operation.

During the year, the goodwill arising from the acquisition of Top Field Limited and its subsidiary Fujian Dawnrays (“Fujian Dawnrays Goodwill”) amounted to RMB241,158,000. the Group is required to check, at each reporting period end, whether the recoverable amount based on the value in use of the cash-generating unit of Fujian Dawnrays exceeds the carrying value at 31 December 2022. After an assessment, the Group believes that there were no indications of impairment on Fujian Dawnrays Goodwill as at 31 December 2022.

In 2022, due to internal restructuring, Suzhou Dawnrays established the Suzhou Dawnrays Domestic Headquarters, holding 100% equity of Lanzhou Dawnrays and Fujian Dawnrays. As at the end of 2022, the accumulated registered capital invested in Lanzhou Dawnrays was RMB320,750,365 and the accumulated registered capital invested in Fujian Dawnrays was RMB98,694,806.

Save as disclosed above, there were no significant external investments, material acquisitions or disposal of subsidiaries and associated companies by the Group during the year.

## **FOREIGN EXCHANGE AND TREASURY POLICIES**

As at year ended 31 December 2022, the Group recorded an exchange loss of RMB4,537,000 (2021: gain of RMB997,000). 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. 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 2022, the Group employed approximately 1,106 (2021: 1,065) employees and the total remuneration was approximately RMB183,630,000 (2021:RMB172,023,000). The total remuneration increased mainly due to staff increase and salary adjustment. 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.

## **CONTINGENT LIABILITIES**

As at 31 December 2022, the Group had no material contingent liabilities.

## **CHARGES ON ASSETS**

As at 31 December 2022, the Group had not pledged any assets to banks to secure credit facilities granted to its subsidiaries (as at 31 December 2021: Nil).

## **EVENT AFTER THE REPORTING PERIOD**

On 24 October 2022, Dawnrays Biotechnology entered into a loan contract with AD Pharmaceuticals. Dawnrays Biotechnology agreed to provide an unsecured interest-bearing loan to AD Pharmaceuticals for a total of RMB105,000,000 with an interest rate of 3.5% per annum for a term of five years. Dawnrays Biotechnology provided a loan of RMB66,500,000 in January and February 2023.

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

Save for those disclosed above in connection with capital commitments, increase of registered capital in subsidiaries and capital for relocation plans under the section “Liquidity and Financial Resources” and “Substantial Investment”, the Group does not have any plan for material investments or acquisition of capital assets.

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. However, it is still possible to pay the above capital expenditure commitments with bank loans or internal resources of the Group.

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

For the year ended 31 December 2022, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities.

## **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 2022, except for the following deviation:

### **1. CODE PROVISION C.1.6 OF THE CG CODE — ATTENDANCE OF NON-EXECUTIVE DIRECTORS AT GENERAL MEETING**

The code provision C.1.6 of the CG Code requires that independent non-executive directors and other non-executive directors should attend general meetings to gain and develop a balanced understanding of the view of shareholders. All directors except Mr. Lo Tung Sing Tony (“Mr. Lo”), an independent non-executive director, could not attend due to his other business commitment, attended the annual general meeting of the Company held on 27 May 2022 (the “2022 AGM”). The views of shareholders had been reported to Mr. Lo after the 2022 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 2022 annual report.

## **AUDIT COMMITTEE**

The audited financial statements of the Company for the year ended 31 December 2022 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 2022 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 OF MEMBERS**

The Board has resolved to recommend the payment of a final dividend of HK\$0.073 per share to shareholders whose names appear in the Register of Members of the Company on Friday, 2 June 2023. The proposed final dividend of HK\$0.073 per share, the payment of which are subject to approval of the shareholders at the 2023 AGM of the Company to be held on Thursday, 25 May 2023, are to be payable on Tuesday, 13 June 2023 to shareholders.

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

- (i) from Friday, 19 May 2023 to Thursday, 25 May 2023, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2023 AGM. In order to be eligible to attend and vote at the 2023 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, 18 May 2023 with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.
- (ii) from Thursday, 1 June 2023 to Friday, 2 June 2023, 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 Wednesday, 31 May 2023 with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

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

## **APPRECIATION**

The year 2023 marks the 20th anniversary of the listing of the Company on the Hong Kong Stock Exchange. I would like to take this opportunity to express my heartfelt thanks to the shareholders, directors of the Company, partners, managers and employees of the Group for their support to me and the Group in the past year.

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

Hong Kong, 24 March 2023

*As at the date of this announcement, the Board of the Company comprises two executive directors, namely Ms. Li Kei Ling and Mr. Hung Yung Lai; 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.*