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 2016

RESULTS HIGHLIGHTS

	For the year ended 31 December		
	2016	2015	Changes
Revenue (RMB'000)	824,351	985,000	-16.3%
Gross profit (RMB'000)	511,479	569,388	-10.2%
Gross profit margin (%)	62.0%	57.8%	+4.2 percentage points
Profit before tax (RMB'000)	333,299	377,189	-11.6%
Profit for the year (RMB'000)	265,917	302,198	-12.0%
Net profit margin (%)	32.3%	30.7%	+1.6 percentage points
Earnings per share attributable to ordinary equity holders of the parent-basic (RMB)	0.3314	0.3758	-11.8%
Proposed final dividend per share (HK$)	0.10	0.12	-16.7%

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 2016 (the "reporting period") together with the comparative amounts for 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	4	824,351	985,000
Cost of sales		(312,872)	(415,612)
Gross profit		511,479	569,388
Other income and gains	4	24,425	31,481
Selling and distribution expenses		(98,895)	(94,471)
Administrative expenses		(64,625)	(74,940)
Other expenses		(38,928)	(52,745)
Finance costs	5	(157)	(1,524)
PROFIT BEFORE TAX	6	333,299	377,189
Income tax expense	7	(67,382)	(74,991)
PROFIT FOR THE YEAR		265,917	302,198
Attributable to:			
Owners of the parent		265,917	302,198
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
- Basic, for profit for the year		RMB0.3314	RMB0.3758
- Diluted, for profit for the year		RMB0.3312	RMB0.3747

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	2016	2015
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	265,917	302,198
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences	4,373	(1,343)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	4,373	(1,343)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	270,290	300,855
Attributable to:		
Owners of the parent	270,290	300,855

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 *RMB'000*	2015 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		566,321	597,233
Land use rights		40,175	41,216
Construction in progress		5,776	4,304
Intangible assets		24,909	18,629
Deferred tax assets		6,729	9,131
Total non-current assets		643,910	670,513
CURRENT ASSETS			
Inventories		124,746	147,747
Trade and notes receivables	10	225,660	282,173
Prepayments, deposits and other receivables		220,958	13,830
Equity investments at fair value through profit or loss		7,794	3,683
Cash and bank		663,296	685,790
Total current assets		1,242,454	1,133,223
CURRENT LIABILITIES			
Trade and notes payables	11	87,938	143,128
Other payables and accruals		98,104	114,400
Interest-bearing bank loans		9,104	8,847
Income tax payable		5,510	18,050
Total current liabilities		200,656	284,425
NET CURRENT ASSETS		1,041,798	848,798
TOTAL ASSETS LESS CURRENT LIABILITIES		1,685,708	1,519,311
NON-CURRENT LIABILITIES			
Government grants		2,248	2,683
Deferred tax liabilities		46,704	42,752
Total non-current liabilities		48,952	45,435
Net assets		1,636,756	1,473,876
EQUITY			
Equity attributable to owners of the parent			
Issued capital		84,952	85,206
Treasury shares		(74)	-
Reserves		1,551,878	1,388,670
Total equity		1,636,756	1,473,876

Notes:

1. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs

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

3. SEGMENT INFORMATION

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

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

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

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

Segment liabilities exclude interest-bearing bank loans, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

3. SEGMENT INFORMATION (continued)

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

Year ended 31 December 2015	Intermediates and bulk medicines	Finished drugs	Elimination of intersegment sales	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:				
Sales to external customers	239,612	745,388	-	985,000
Intersegment sales	95,424	-	(95,424)	-
	335,036	745,388	(95,424)	985,000
Segment results	(37,862)	498,280	-	460,418
Reconciliation:				
Unallocated gains				28,549
Corporate and other unallocated expenses				(110,254)
Finance costs				(1,524)
Profit before tax				377,189

3. SEGMENT INFORMATION (continued)

As at 31 December 2016	Intermediates and bulk medicines	Finished drugs	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment assets:	368,763	531,042	899,805
Reconciliation:			
Corporate and other unallocated assets			986,559
Total assets			1,886,364
Segment liabilities:	72,345	65,146	137,491
Reconciliation:			
Corporate and other unallocated liabilities			112,117
Total liabilities			249,608

As at 31 December 2015	Intermediates and bulk medicines	Finished drugs	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment assets:	468,460	539,964	1,008,424
Reconciliation:			
Corporate and other unallocated assets			795,312
Total assets			1,803,736
Segment liabilities:	117,973	78,786	196,759
Reconciliation:			
Corporate and other unallocated liabilities			133,101
Total liabilities			329,860

3. SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2016	2015
	RMB'000	*RMB'000*
Mainland China	723,982	861,111
Other countries	100,369	123,889
	824,351	985,000

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

(b) Non-current assets

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

4. REVENUE, OTHER INCOME AND GAINS

Revenue, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

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

	2016	2015
	RMB'000	*RMB'000*
Revenue		
Sale of goods	824,351	985,000
Other income		
Bank interest income	13,185	21,890
Dividend income from equity investments at fair value through profit or loss	367	159
Foreign exchange differences	6,966	2,951
Government grants	2,580	3,689
Others	824	2,624
	23,922	31,313
Gains		
Gain on disposal of equity investments at fair value through profit or loss	101	168
Fair value gains, net:		
Equity investments at fair value through profit or loss	402	-
	503	168
	24,425	31,481

5. FINANCE COSTS

	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	157	1,524

6. PROFIT BEFORE TAX

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

	2016 *RMB'000*	2015 *RMB'000*
Cost of inventories sold*	310,144	412,153
Depreciation	51,988	53,250
Recognition of land use rights**	1,041	1,041
Research and development costs:		
Amortisation of intangible assets***	596	639
Current year expenditure	26,132	31,921
	26,728	32,560
Minimum lease payments under operating leases:		
Buildings	984	888
Auditors' remuneration	1,388	1,388
Employee benefit expense (including directors' and chief executive officer's remuneration):		
Wages and salaries	64,799	86,621
Equity-settled share option expense	11,423	8,966
Retirement benefits	7,331	7,464
Accommodation benefits	3,549	3,464
Other benefits	12,089	12,096
	99,191	118,611
Foreign exchange differences, net	(6,966)	(2,951)
Impairment of property, plant and equipment	755	-
Write-down of inventories to net realisable value	8,087	15,800
Fair value (gains)/losses, net:		
Equity investments at fair value through profit or loss	(402)	594
Bank interest income	(13,185)	(21,890)
Loss on disposal of items of property, plant and equipment	36	222
Gain on disposal of equity investments at fair value through profit or loss	(101)	(168)

* The depreciation of RMB42,717,000 for the year is included in "Cost of inventories sold".

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

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

7. INCOME TAX

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

	2016	2015
	RMB'000	*RMB'000*
Current income tax		
Current income tax charge	61,028	70,257
Deferred income tax	6,354	4,734
Total tax charge for the year	67,382	74,991

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

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

The Hong Kong subsidiaries are subject to tax at a statutory corporate income tax rate of 16.5% (2015: 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 (2015: Nil).

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

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

All other subsidiaries in Mainland China were subject to the corporate income tax rate of 25% in 2016.

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

7. INCOME TAX (continued)

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

	2016	2015
	RMB'000	*RMB'000*
Accounting profit before income tax	333,299	377,189
At the PRC's statutory income tax rate of 25% (2015: 25%)	83,325	94,297
Tax effect of profits entitled to tax concession or lower tax rate enacted by local authority	(34,499)	(38,477)
Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	13,848	16,521
Adjustments in respect of current income tax of previous years	(9)	-
Expenses not deductible for tax	3,120	2,347
Tax credit for qualified research and development expense	(1,747)	(2,216)
Tax losses not recognised	3,378	2,915
Tax losses utilised from previous periods	(34)	(396)
At the effective income tax rate of 20.22% (2015: 19.88%)	67,382	74,991

8. DIVIDENDS

	2016	2015
	RMB'000	*RMB'000*
Interim – HK$0.03 (2015: HK$0.03) per ordinary share	20,735	19,980
Proposed final – HK$0.10 (2015: HK$0.12) per ordinary share	71,082	80,648
	91,817	100,628

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

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 802,423,749 (2015: 804,079,978) in issue during the year.

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

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

	2016	2015
	RMB'000	*RMB'000*
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent	265,917	302,198

	Number of shares	
	2016	2015
	Thousands	Thousands
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	802,424	804,080
Effect of dilution – weighted average number of ordinary shares:		
Share options	557	2,473
Weighted average number of ordinary shares adjusted for the effect of dilution	802,981	806,553

10. TRADE AND NOTES RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables	111,121	118,482
Impairment	(437)	(437)
	110,684	118,045
Notes receivable	114,976	164,128
	225,660	282,173

10. TRADE AND NOTES RECEIVABLES (continued)

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

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

	2016	2015
	RMB'000	*RMB'000*
Trade receivables		
Outstanding balances with ages:		
Within 90 days	108,463	99,219
Between 91 and 180 days	2,125	12,019
Between 181 and 270 days	96	6,807
	110,684	118,045

The movements in provision for impairment of trade receivables are as follows:

	2016	2015
	RMB'000	*RMB'000*
At 1 January and 31 December	437	437

The above provision for impairment of trade receivables is provided for individually impaired trade receivables with an aggregate carrying amount before provision of RMB437,000 (2015: RMB437,000). The individually impaired trade receivables relate to customers with financial difficulties. The Group does not hold any collateral or other credit enhancements over these balances.

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

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	108,463	108,936
Less than three months past due	2,125	5,454
Over three months past due	96	3,655
	110,684	118,045

10. TRADE AND NOTES RECEIVABLES (continued)

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

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

Financial assets that are not derecognised in their entirety

At 31 December 2016, the Group endorsed certain notes receivable accepted by banks in the PRC (the "Endorsed Notes") with a carrying amount of RMB14,262,000 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 RMB12,821,000 and RMB1,441,000 as at 31 December 2016, respectively.

11. TRADE AND NOTES PAYABLES

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

	2016 *RMB'000*	2015 *RMB'000*
Outstanding balances with ages:		
Within 90 days	33,765	101,515
Between 91 and 180 days	53,238	39,290
Between 181 and 270 days	228	389
Between 271 and 360 days	3	43
Over one year	704	1,891
	87,938	143,128

The trade payables are non-interest-bearing and are normally settled on 90-day terms. The carrying amounts of the trade and notes payables approximate to their fair values. The aggregate carrying amount of the trade payables settled by the Endorsed Notes during the year to which the suppliers have recourse was RMB12,821,000 as at 31 December 2016 .

CHAIRMAN'S STATEMENT

GROUP RESULTS

The Group has recorded revenue of approximately RMB824,351,000 for the year ended 31 December 2016 (2015: RMB985,000,000), representing a decrease of 16.3% as compared to 2015. Profit attributable to owners of the parent was approximately RMB265,917,000 (2015: RMB302,198,000), representing a decrease of 12.0% over 2015.

FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK$0.10 per share for the year ended 31 December 2016, amounting to the total sum of approximately HK$80,109,000 (equivalent to approximately RMB71,082,000), to the shareholders whose names appeared in the register of members as of Wednesday, 31 May 2017 subject to the approval of the shareholders at the forthcoming 2017 Annual General Meeting (the "2017 AGM"). Taking into consideration the interim dividend of HK$0.03 per share, the total annual dividend distributed for the year is HK$0.13 per share. The dividend payout ratio is approximately 34.5%.

BUSINESS REVIEW AND PROSPECT

Generally speaking, the global situation of economy was still complicated in 2016. As continuously affected by economic reforms, the operating environment in the PRC market highly fluctuated, while all industries were faced with different pressures. As for China's pharmaceutical industry, although it still maintained a growth trend, its overall growth rate slowed down. Due to various medical and pharmaceutical policies and measures issued by the Government, all types of pharmaceutical firms were still in the face of a much fluctuant business environment. However, in consideration of the particularity of medical service and the increasing rigid social demand, plenty of opportunities also exist at related markets in spite of various challenges. As the governmental resources and social capital are expected to continuously invest in various sub-industries, therefore China's medical and healthcare industry still maintain favorable development momentum.

During the period, the Group's turnover and profit decreased as compared to 2015, which was primarily attributable to the Group's termination of Master Agency Agreement for "Leiyide" (雷易得) (Entecavir Dispersible Tablets) in Mainland China, thus temporarily affecting the sales volume as the Company needed to adjust the marketing structure. The sales of "Leiyide" (雷易得) is expected to recover gradually through unremitting effort of the marketing team. The Group's contract to supply Entecavir Tablets in Hong Kong market through the distribution business partner of GlaxoSmithKline Limited, a partner of the Group, has operated smoothly as a whole, and all parties concerned were satisfied with the Group's product quality and supply service.

In spite of the fierce market competition, a much stable market foundation has been established as the Group implemented various market strategies and plans during the earlier market launch phase of system specific medicines. During the period, sales amount of major varieties of the Group's specific medicines except "Leiyide" (雷易得) increased significantly as compared to 2015, which has made important contributions to the Group's profitability.

During the period, the antibiotics end market tended to be stable, but its growth still slowed down. Some homogeneous varieties competed fiercely and led to the increasing difficulty in business operation. Besides, as the Group adjusted relevant business strategies, production and sales volume of intermediates and bulk medicines decreased during the transition period, therefore the Group's performance in cephalosporin antibiotics failed to meet the expectations and recorded another loss, but the amount of loss shrank as compared to 2015.

During the review period, Dawnrays Biotechnology Capital (Asia) Limited, a newly-established wholly-owned subsidiary of the Company, set up a joint venture with 中山康方生物醫藥有限公司 (Akeso Biopharma Inc.) for the purpose of, including but not limited to, research, development, production and sale of biodrugs. Relevant information has been published in the Company's announcement on 14 December 2016.

Besides, considering the changes in surrounding environment of the Group's specific plants, the Group has gradually conducted feasibility study on relevant solutions, and will duly announce the details when the final solution is determined.

As to prospect of China's medical and pharmaceutical industry, the economic growth of China slows down, the government has applied stricter standards and supervision on the pharmaceutical industry, and particularly taken more rigorous management mechanism in terms of price and circulation of drugs, which have increased the costs of pharmaceutical enterprises. However, the Group still keeps its previous views that benefitting from improving government medical resources and medical insurance system, aging population, increasing health awareness and affordability of the general public, there is still further development room for social demands in the medical and pharmaceutical market, while the pharmaceutical sector will still maintain continual and steady growth.

Accordingly, based on the Group's strength and weakness, as well as the direction of government policies and the market demands and trends, the Group considers the situation and continues to concentrate its resources to perform the following tasks in 2017 in a more efficient manner:

1) As to system specific medicines business, the Group will closely monitor and follow up all designed and implemented marketing policies and measures and strengthen management so as to increase penetration rate to all-tier end markets in hope of a more extensive and consolidated market coverage and a more favorable condition of the Group's system specific medicine sales. Therein, in terms of the sales of "Leiyide" (雷易得) for treating hepatitis B virus, the Group will allocate more resources, build the sales team and channels, and intensify the market management system, so as to make new breakthrough in sales.

2) As to cephalosporin antibiotics business, considering that the drug administration authorities in China and other countries are highly concerned about clinical application and management of antibiotics, growth space of relevant products has been restricted at the end market and the operating environment was faced with challenges. The Group will continue to make all efforts to improve product quality and stability, and also curb production cost to make the business of such series products finally reach balance between revenues and expenditures.

3) As to product R&D, the Group will accommodate to the development tendency of disease spectrums among the public, and carry out diversified cooperation with external institutions through internal R&D resources by coordinating with the government's industry policy and by combining the Group's financial resources and business development conditions, in an effort to enrich the Group's drug varieties in development in all treatment sectors more effectively, and foster more vital forces for the Group's profit growth in future.

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

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

During the review period, under the pressure of intense market competition, most of the Group's system specific medicines still recorded increase in sales amount while maintaining good business growth momentum compared to 2015. In particular, as to anti-hypertensive drug in "An" (安) series medicines and "Xikewei" (西可韋), the Group's marketing team adjusted marketing measures to a reasonable extent, strengthened allocation of resources, optimized supply and sales system, and succeeded in achieving remarkable increase in sales amount of that series of medicines, making extremely important contributions to the Group's profitability.

As to sales of "Leiyide" (雷易得) (Entecavir Dispersible Tablets) for treating hepatitis B virus, since the Master Agency Agreement for 0.5mg "Leiyide" (雷易得) was terminated in July 2016, the Group has directly planned and organized the marketing of "Leiyide" (雷易得). Apart from reinforcing the original marketing channels, the Group also attached great importance to expanding other regional markets, in an effort to bring into full play the market potential of this product more effectively. Since the Group's sales team directly took over the front end sales of "Leiyide" (雷易得) in the second half of 2016, the sales management personnel has considered in the long run and focused their overall work on adjusting the structure and order of regional markets, so as to establish a more steady market foundation and benefit future development of the product. Consequently, sales of the product during the review period decreased as compared to that in 2015.

In terms of the Group's business of cephalosporin antibiotics, during the period, the Group still recorded losses from the business of that series of products, but the amount of losses shrank as compared to 2015. In consideration of the fierce competition at China's cephalosporin market, the Group determined to adjust the strategy after evaluating various factors and market tendency, and focused attention on production and sales of cephalosporin varieties with higher added values, apart from existing varieties. Therefore, some workshops need to be shut down for transformation, leading to decrease in production and sales volume of the Group's intermediates and bulk medicines in 2016 as compared to last year.

PRODUCTION AND SALES

For the year ended 31 December 2016, the Group's production and sales volume of intermediates and bulk medicines decreased by 32.6% and 34.0% respectively as compared to that in 2015; the decrease in production and sales volume of intermediates and bulk medicines was because the production workshops were shut down for transformation; the production volume of cephalosporin powder for injection decreased by 47.9% while the sales volume decreased by 20.0% as compared to last year, where the decrease in sales volume of powder for injection was attributable to the temporary loss of market in some regions. The production volume of solid-dosage-forms decreased by 15.1% as compared to last year, but the sales volume increased by 6.6% over last year. As for the international business, the Group kept expanding its overseas market, making the overseas sales accounted for 12.2% of total sales volume of the Group; the export sales amount decreased by 19.0% as compared to last year due to the reduction in supply of bulk medicines.

NEW PRODUCTS AND PATENT LICENSING

(1) In 2016, a total of 18 declarations for registration were filed with the Food and Drug Administration of Jiangsu Province (including 10 supplementary applications for approval or record and 8 applications for re-registration); a total of 30 approval documents were obtained (including 2 production approval documents, 10 supplementary application documents for record, 15 re-registration approval documents and 3 documents for issuing drug standards).

(2) One patent certificate was obtained
The exterior shape design of Entecavir Dispersible Tablets was granted the design patent certificate on 14 September 2016.

HONORS AWARDED IN 2016

February 2016	"Leiyide" (雷易得) Brand Entecavir Dispersible Tablets was recognized as Famous Brand Product of Jiangsu Province by Jiangsu Provincial Brand Strategy Promotion Committee.
May 2016	Suzhou Dawnrays Pharmaceutical Co., Ltd. was honored as one of the "Top Ten Excellent Enterprises of Jiangsu Province".
July 2016	"Cetirizine Hydrochloride Raw Materials and Tablets ("Xikewei",西可韋)" and "Cefoperazone Sodium and Sulbactam Sodium for Injection ("Xianshu", 先舒) and its Raw Materials" were recognised as "High-tech Product of Jiangsu Province" by the Science and Technology Department of Jiangsu Province.
September 2016	"Entecavir Raw Materials and Dispersible Tablets ("Leiyide", 雷易得)" and "Potassium Citrate Extended-release Tablets ("Jieshitong", 傑士同)" were recognised as "High-tech Product of Jiangsu Province" by the Science and Technology Department of Jiangsu Province.
December 2016	"Amlodipine Besylate Tablets ("Anneizhen", 安內真)", "Entecavir Dispersible Tablets ("Leiyide", 雷易得)" and "Cetirizine Hydrochloride Tablets ("Xikewei", 西可韋)" were honored as "Excellent Product Brand Award in Pharmaceutical Industry of Jiangsu Province in 2016".

FINANCIAL REVIEW

SALES AND GROSS PROFIT

For the year ended 31 December 2016, the Group recorded a turnover of approximately RMB824,351,000, which was decreased by RMB160,649,000, represented a decrease of 16.3% compared with last year. Of which the turnover of intermediate and bulk medicines was RMB163,586,000 which was decreased by RMB76,026,000 or 31.7% compared with last year. The turnover of finished drugs was RMB660,765,000 which was decreased by RMB84,623,000 or 11.4% compared with last year. The reasons for the decrease in turnover mainly attributed to the decrease in sales volume of intermediates and bulk medicines and temporary impact caused by the Group's termination of Master Agency Agreement for 0.5mg Leiyide and withdrawal of goods from the general agency.

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 RMB660,765,000. Taking into account of the total turnover, sales amount of finished drugs was approximately 80.2% which was increased by 4.5 percentage points compared with last year. Sales amount of system specific medicines accounted for 90.2% of sales of finished drugs.

Gross profit was approximately RMB511,479,000 which was decreased by RMB57,909,000 compared with last year, representing a decrease of 10.2%. Gross profit margin increased by 4.2 percentage points to 62.0% from 57.8% as in last year. It was mainly due to the influence of increased sales proportion of system specific medicines.

TABLE OF TURNOVER ANALYSIS

PRODUCT	TURNOVER			SALES BREAKDOWN		
	(RMB'000)	(RMB'000)	(RMB'000)	(%)	(%)	Percentage points
	2016	2015	Changes	**2016**	2015	Changes
Intermediates and Bulk Medicines	**163,586**	239,612	-76,026	**19.8**	24.3	-4.5
Finished Drugs	**660,765**	745,388	-84,623	**80.2**	75.7	+4.5
Overall	**824,351**	985,000	-160,649	**100.0**	100.0	0.0

EXPENSES

During the year, the total expenses incurred were approximately RMB202,605,000, equivalent to 24.6% of turnover (2015: 22.7%). The total expenses decreased by approximately RMB21,075,000 compared with last year which was RMB223,680,000. The selling and distribution expenses increased slightly due to enhancement in distribution channel development and strength in promotion and marketing effort. Administrative expenses decreased by RMB10,315,000 compared with last year due to strengthened control in administrative expenses.

SEGMENT PROFIT

For the year ended 31 December 2016, the segment profit of finished drugs segment was approximately RMB419,905,000, which was decreased by approximately RMB78,375,000 when compared with that in 2015 which was RMB498,280,000. The segment results of intermediates and bulk medicines segment recorded losses of approximately RMB14,489,000. The loss was reduced by RMB23,373,000 compared with the loss of RMB37,862,000 in 2015. As the Group had strict control in the production cost of cephalosporin bulk medicines, the overall production cost was reduced and the loss situation of the Group's bulk medicines business had larger improvement compared with last year.

PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

For the year ended 31 December 2016, profit attributable to owners of the parent amounted to approximately RMB265,917,000, recorded a decrease of RMB36,281,000 or 12% compared with RMB302,198,000 in last year. Such decrease was primarily attributable to the temporary impact caused by termination of Master Agency Agreement for 0.5mg Leiyide, one of the system specific medicines, and withdrawal of goods from the general agency.

ANALYSIS ON THE RETURN ON ASSETS

As at 31 December 2016, net assets attributable to owners of the parent were approximately RMB1,636,756,000. The return on net assets, which is defined as the profit attributable to owners of the parent divided by net assets attributable to owners of the parent, was 16.2% (2015: 20.5%). The current ratio and quick ratio was 6.19 and 5.57 respectively. Turnover days for trade receivables were approximately 50 days. The turnover days for trade receivables including bills receivables were 111 days. Turnover days for inventory were approximately 157 days.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group had cash and bank balance approximately RMB663,296,000 (as at 31 December 2015: RMB685,790,000). In addition, in order to operate the idle funds more effectively and improve returns, the Group had placed total RMB210,000,000 on principal-preservation type of structured deposits with interest rates at 2.6%-2.8% p.a. to several creditworthy banks in Mainland China. During the year, the net cash flows from operating activities was approximately RMB320,258,000 (2015: RMB298,322,000). Net cash flows used in investing activities was approximately RMB105,739,000 (2015: RMB146,200,000). Net cash flows used in financing activities was approximately RMB117,271,000 (2015: RMB37,984,000).

As at 31 December 2016, the Group had aggregate bank facilities of approximately RMB724,397,000 (as at 31 December 2015: RMB763,035,000), of which, bank facilities of HK$40,000,000 were secured by corporate guarantee of the Company. Of the aggregate bank facilities including a mortgage loan of HKD120,000 and short term bank loan of HKD10,000,000 which were subject to the arrangement of floating interest rates ranged from HIBOR plus 1.5% to 1.75%. As at 31 December 2016, the debt ratio (defined as sum of interest-bearing bank loans over total assets) of the Group was 0.5% (as at 31 December 2015: 0.5%).

As at 31 December 2016, the Group had the inventory balance of RMB124,746,000 (as at 31 December 2015: RMB147,747,000).

As at 31 December 2016, the Group's contracted but not provided for plant and machinery capital commitments amounted to approximately RMB3,060,000 (as at 31 December 2015: RMB7,776,000), which mainly derived from the sewage treatment works and workshop GMP renovation in Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd.

Dawnrays Biotechnology Capital (Asia) Ltd.("Dawnrays Biotechnology"), a wholly-owned subsidiary of the Company, was set up in September 2016. In December 2016, Dawnrays Biotechnology and 中山康方生物醫藥有限公司(Akeso Biopharma Inc.) ("Akeso") entered into a joint venture agreement, for the purpose of, amongst other things, establishing a joint venture company, 康融東方(廣東)醫藥有限公司(AD Pharmaceuticals Co., Ltd.) ("AD Pharmaceuticals"), and regulating the funding and management arrangements with respect to AD Pharmaceuticals and the respective rights and obligations of Dawnrays Biotechnology and Akeso. Dawnrays Biotechnology proposed to invest RMB150,000,000 to hold 35% share interests in AD Pharmaceuticals. AD Pharmaceuticals is to be engaged, including but not limited to, in the research and development of products and technologies in relation to biochemistry fields; the production and sale of related products.

During the year, the wholly-owned subsidiary of the Company, Dawnrays Internatioinal Co. Ltd. had re-invested the after tax dividend distributed from Suzhou Dawnrays Pharmaceutical Co., Ltd. amounting USD3,500,000 into the registered capital of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd.

In addition, for matching future development, Suzhou Dawnrays Pharmaceutical Co., Ltd. had applied to increase the registered share capital by USD86,500,000 and would be injected by instalments before 1 January 2045.

The Group has sufficient financial and internal resources to pay the capital commitments, joint venture project and increased registered share capital described above.

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

FOREIGN EXCHANGE AND TREASURY POLICIES

For the year ended 31 December 2016, part of the Group's bank fixed deposits and account receivable were denominated in foreign currency and as the depreciation of Renminbi in 2016, the Group recorded approximately RMB6,966,000 exchange gain. The Group's substantial business activities, assets and liabilities are denominated in Renminbi, the risk derived from the foreign exchange to the Group is not high, except for the Group pays dividends in Hong Kong dollars. Therefore, the foreign exchange risks are primarily with respect to Hong Kong Dollars. The treasury policy of the Group is to manage any risk of foreign exchange or interest rate (if any) only if it will potentially impose a significant impact on the Group. The Group continues to observe the foreign exchange and interest rate market, and may hedge against foreign currency risk with foreign exchange forward contracts and interest rate risk with interest rate swap contracts if necessary.

STAFF AND REMUNERATION POLICY

As at 31 December 2016, the Group employed approximately 887 employees and the total remuneration was approximately RMB99,191,000 (2015: RMB118,611,000). The decrease was due to the adjustment in production plan which cut off some employees and reduced total remuneration compared with last year. The Group regards human resources as the most valuable assets and truly understands the importance of attracting and retaining high-performance employees. The remuneration policy is generally based on the references of market salary index and individual qualifications. The Group provides its employees with other fringe benefits, including defined contribution retirement schemes, share option scheme and medical coverage. The Group also offers some of its employees stationed in the PRC with dormitory accommodation.

CHARGES ON ASSETS

As at 31 December 2016, the Group's assets with carrying amount of approximately RMB31,815,000 were pledged to banks to secure mortgage credit facilities granted to its subsidiaries (as at 31 December 2015: RMB29,821,000).

CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no material contingent liabilities.

PLANS FOR SIGNIFICANT INVESTMENTS AND EXPECTED SOURCE OF FUNDING

Save for those disclosed above in connection with capital commitments, increased registered share capital and external investment under the section "Liquidity and Financial Resources", the Group does not have any plan for material investments or acquisition of capital assets.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, the Company repurchased 4,356,000 shares of the Company's listed securities on the Stock Exchange at an aggregate consideration of HKD22,103,160 before expenses. The repurchases were effected by the Directors for the enhancement of shareholder value in the long term. The repurchased shares, of which 3,536,000 shares were cancelled in 2016 and the remaining 820,000 shares were cancelled on 26 January 2017. The monthly breakdown of shares repurchased during the year was as follows:

Month of Repurchase	Number of Shares repurchased	The highest price paid per share (HK$)	The lowest price paid per share (HK$)	Aggregate consideration paid (HK$)
January 2016	760,000	5.24	4.84	3,829,360
February 2016	1,680,000	5.39	4.97	8,649,600
August 2016	944,000	5.37	5.07	5,005,080
September 2016	152,000	5.40	5.36	817,840
December 2016	820,000	4.70	4.40	3,801,280
Total	4,356,000			22,103,160

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased redeemed or sold any of the Company's listed securities for the year ended 31 December 2016.

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 2016, except for the following deviation:

1. *Code Provision A.2.1 of the CG Code-The roles of chairman and chief executive officer should be separate and should not be performed by the same individual*
   Ms. Li Kei Ling, the Chairman of the Board, was appointed as the chief executive officer on 1 March 2015 which was a non-compliance to the Code Provision A.2.1. The Board believes that a balance of power and authority can be adequately ensured by the operation of the Board which comprises experienced and caliber individuals. However, in order to re-comply with Code Provision A.2.1 of the CG Code, Mr. Chen Shaojun has been appointed as the Company's CEO since 18 April 2016 and is delegated with the authority and responsibility for managing the Group's business operation and implementing the development strategies.

2. *Code Provision A.6.7 of the CG Code -Attendance of Non-executive directors at general meeting*
   Other than one Non-executive Director who was not in position to attend the annual general meeting of the Company held on 20 May 2016 (the "2016 AGM") due to an overseas commitment, all Non-executive Directors (including Independent Non-executive Directors) attended the 2016 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 2016 annual report.

AUDIT COMMITTEE

The audited financial statements of the Company for the year ended 31 December 2016 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 2016 as set out in this preliminary announcement have been agreed by the Group's independent auditors, Ernst & Young ("EY"), to be consistent with the amounts set out in the Group's consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently, no assurance has been expressed by EY on this preliminary announcement.

DIVIDEND AND CLOSURE OF REGISTER

The Board has resolved to recommend the payment of a final dividend of HK$0.10 per share payable to shareholders whose names appear in the Register of Members of the Company on Wednesday, 31 May 2017. The proposed final dividend of HK$0.10 per share, the payment of which is subject to approval of the shareholders at the 2017 AGM of the Company to be held on Thursday, 25 May 2017, is to be payable on Tuesday, 13 June 2017 to shareholders.

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

(i) from Monday, 22 May 2017 to Thursday, 25 May 2017, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2017 AGM. In order to be eligible to attend and vote at the 2017 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 Friday, 19 May 2017 with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(ii) from Thursday, 1 June 2017 to Friday, 2 June 2017, 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 2017 with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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

APPRECIATION

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

By Order of the Board
Li Kei Ling
Chairman

Hong Kong, 24 March 2017

As at the date of this announcement, the Board of the Company comprises three executive directors, namely Ms. Li Kei Ling, Mr. Hung Yung Lai and Mr. Li Tung Ming; two non-executive directors, namely Mr. Leung Hong Man and Mr. Ede, Ronald Hao Xi; three independent non-executive directors, namely Mr. Pan Xue Tian, Mr. Choi Tat Ying Jacky and Mr. Lo Tung Sing Tony.