**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 2018

RESULTS HIGHLIGHTS

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2018 | 2017 | Changes |
| Revenue (RMB'000) | 948,938 | 882,483 | 7.5% |
| Gross profit (RMB'000) | 595,029 | 561,549 | 6.0% |
| Gross profit margin (%) | 62.7% | 63.6% | -0.9 percentage points |
| Profit before tax (RMB'000) | 377,777 | 365,703 | 3.3% |
| Profit for the year (RMB'000) | 303,960 | 292,978 | 3.7% |
| Net profit margin (%) | 32.0% | 33.2% | -1.2 percentage points |
| Earnings per share attributable to ordinary equity holders of the parent—basic (RMB)# | 0.1916 | 0.1837 | 4.3% |
| Proposed final dividend per share (HK$)# | 0.06 | 0.06* | 0.0% |

(#The number of shares for calculating the earnings per share and proposed final dividend for 2018 already reflect the share sub-division (i.e. sub-division of each of the issued and unissued ordinary shares of par value of HK$0.10 of the Company into two (2) sub-divided shares of par value of HK$0.05 each in the share capital of the Company (the "Sub-divided Share") as approved by the shareholders of the Company in the extraordinary general meeting on 3 August 2018 with effect from 6 August 2018)(the "Share Sub-division"). Further details and definition of the Sub-divided Share and Share Sub-division are set out in the Company's announcement dated 11 July 2018 and the Company's circular dated 18 July 2018).

(*In 2017 proposed final dividend was HK$0.12 per ordinary share before the effect of the Share Sub-division. On the assumption that the Share Sub-division had been effective in the prior year, it was HK$0.06 per Sub-divided Share after the effect of the Share Sub-division).

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 2018 (the "reporting period") together with the comparative amounts for 2017 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

**Year ended 31 December 2018**

| | Notes | 2018 | 2017 |
|---|---|---|---|
| | | *RMB'000* | *RMB'000* |
| **REVENUE** | 4 | 948,938 | 882,483 |
| Cost of sales | | (353,909) | (320,934) |
| **Gross profit** | | 595,029 | 561,549 |
| Other income and gains | 4 | 47,923 | 30,372 |
| Selling and distribution expenses | | (106,854) | (88,086) |
| Administrative expenses | | (83,184) | (82,491) |
| Other expenses | | (59,936) | (48,946) |
| Finance costs | 5 | (1,152) | (13) |
| Share of profits and losses of: | | | |
| an associate | | (14,049) | (6,682) |
| **PROFIT BEFORE TAX** | 6 | 377,777 | 365,703 |
| Income tax expense | 7 | (73,817) | (72,725) |
| **PROFIT FOR THE YEAR** | | 303,960 | 292,978 |
| Attributable to: | | | |
| Owners of the parent | | 303,960 | 292,978 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | 9 | | |
| Basic, for profit for the year | | RMB0.1916 | RMB0.1837 |
| Diluted, for profit for the year | | RMB0.1916 | RMB0.1837 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**Year ended 31 December 2018**

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **PROFIT FOR THE YEAR** | 303,960 | 292,978 |
| Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences | 8,773 | (4,794) |
| **OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX** | 8,773 | (4,794) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | 312,733 | 288,184 |
| Attributable to: | | |
| Owners of the parent | 312,733 | 288,184 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 31 December 2018

| | Notes | 2018 | 2017 |
|---|---|---|---|
| | | *RMB'000* | *RMB'000* |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | 486,269 | 520,860 |
| Land use rights | | 38,093 | 39,134 |
| Construction in progress | | 10,572 | 9,991 |
| Intangible assets | | 63,706 | 35,748 |
| Investment in an associate | | 29,599 | 43,648 |
| Long-term prepayments | | 21,629 | - |
| Deferred tax assets | | 5,823 | 4,688 |
| Total non-current assets | | 655,691 | 654,069 |
| **CURRENT ASSETS** | | | |
| Inventories | | 148,043 | 121,133 |
| Trade and notes receivables | 10 | 346,802 | 313,214 |
| Prepayments, other receivables and other assets | | 380,737 | 472,975 |
| Financial assets at fair value through profit or loss | | 189,393 | 8,743 |
| Cash and bank | | 645,363 | 611,077 |
| Total current assets | | 1,710,338 | 1,527,142 |
| **CURRENT LIABILITIES** | | | |
| Trade and notes payables | 11 | 130,417 | 143,404 |
| Other payables and accruals | | 169,772 | 160,997 |
| Income tax payable | | 19,945 | 15,648 |
| Total current liabilities | | 320,134 | 320,049 |
| NET CURRENT ASSETS | | 1,390,204 | 1,207,093 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 2,045,895 | 1,861,162 |
| **NON-CURRENT LIABILITIES** | | | |
| Government grants | | 1,508 | 1,878 |
| Deferred tax liabilities | | 52,987 | 53,126 |
| Other liabilities | | 70,238 | - |
| Total non-current liabilities | | 124,733 | 55,004 |
| **Net assets** | | 1,921,162 | 1,806,158 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | | 84,197 | 84,197 |
| Reserves | | 1,836,965 | 1,721,961 |
| **Total equity** | | 1,921,162 | 1,806,158 |

*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) 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 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 include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. 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 2 | *Classification and Measurement of Share-based Payment Transactions* |
| Amendments to IFRS 4 | *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* |
| IFRS 9 | *Financial Instruments* |
| IFRS 15 | *Revenue from Contracts with Customers* |
| Amendments to IFRS 15 | *Clarifications to IFRS 15 Revenue from Contracts with Customers* |
| Amendments to IAS 40 | *Transfers of Investment Property* |
| IFRIC 22 | *Foreign Currency Transactions and Advance Consideration* |
| *Annual Improvements 2014-2016 Cycle* | Amendments to IFRS 1 and IAS 28 |

Except for the amendments to IFRS 4, IAS 40 and *Annual Improvements to IFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

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

(b) (continued)

*Classification and measurement*

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through other comprehensive income ("OCI"); equity instruments are subsequently measured at fair value through profit or loss, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent solely payments of principal and interest on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group. The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39. The following are the changes in the classification of the Group's financial assets:

Trade and other receivables previously classified as receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are now classified and measured as debt instruments at amortised cost. Notes receivables previously classified as receivables 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 now classified and measured as debt instruments at fair value through OCI.

There are no changes in classification and measurement for the Group's financial liabilities.

In summary, upon the adoption of IFRS 9, the Group had the following required or elected reclassifications as at 1 January 2018:

| | | IFRS 9 measurement category | | |
|---|---|---|---|---|
| | | Fair value through profit or loss | Amortised cost | Fair value through OCI |
| IAS 39 measurement category | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **<u>Financial assets</u>** | | | | |
| Trade and notes receivables | 313,214 | - | 184,853 | 128,361 |
| Financial assets included in prepayments, other receivables and other assets | 461,005 | - | 461,005 | - |
| Equity investments at fair value through profit or loss | 8,743 | 8,743 | - | - |
| Cash and bank | 611,077 | - | 611,077 | - |
| | | 8,743 | 1,256,935 | 128,361 |
| **<u>Financial liabilities</u>** | | | | |
| Trade and notes payables | 143,404 | - | 143,404 | - |
| Financial liabilities included in other payables and accruals | 62,957 | - | 62,957 | - |
| | | - | 206,361 | - |

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

(b) (continued)

*Impairment*
The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon the adoption of IFRS 9, no additional impairment was recognised on the Group's financial assets.

(c) IFRS 15 and its amendments replace IAS 11 *Construction Contracts,* IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

*Consideration received from customers in advance*
Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as advances from customers included in other payables and accruals. Under IFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB13,841,000 from advances from customers included in other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under IFRS 15, RMB13,897,000 was reclassified from advances from customers included in other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of pharmaceutical products and the provision of pilot test services.

Except for those described above, the adoption of IFRS 15 does not have any material impact on the Group's consolidated financial statements.

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

(d) IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

## 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, 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 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 2018** | 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 | 210,519 | 738,419 | - | 948,938 |
| Intersegment sales | 37,679 | - | (37,679) | - |
| | 248,198 | 738,419 | (37,679) | 948,938 |
| **Segment results** | 2,912 | 489,683 | - | 492,595 |
| *Reconciliation:* | | | | |
| Unallocated gains | | | | 45,118 |
| Corporate and other unallocated expenses | | | | (158,784) |
| Finance costs | | | | (1,152) |
| Profit before tax | | | | 377,777 |

| **Year ended 31 December 2017** | 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 | 156,882 | 725,601 | - | 882,483 |
| Intersegment sales | 37,671 | - | (37,671) | - |
| | 194,553 | 725,601 | (37,671) | 882,483 |
| **Segment results** | (5,355) | 488,211 | - | 482,856 |
| *Reconciliation:* | | | | |
| Unallocated gains | | | | 25,946 |
| Corporate and other unallocated expenses | | | | (143,086) |
| Finance costs | | | | (13) |
| Profit before tax | | | | 365,703 |

## 3. SEGMENT INFORMATION (continued)

| **As at 31 December 2018** | Intermediates and bulk medicines | Finished drugs | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Segment assets:** | 369,428 | 639,193 | 1,008,621 |
| *Reconciliation:* | | | |
| Corporate and other unallocated assets | | | 1,357,408 |
| Total assets | | | 2,366,029 |
| **Segment liabilities:** | 92,989 | 94,191 | 187,180 |
| *Reconciliation:* | | | |
| Corporate and other unallocated liabilities | | | 257,687 |
| Total liabilities | | | 444,867 |

| **As at 31 December 2017** | Intermediates and bulk medicines | Finished drugs | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Segment assets:** | 432,066 | 560,628 | 992,694 |
| *Reconciliation:* | | | |
| Corporate and other unallocated assets | | | 1,188,517 |
| Total assets | | | 2,181,211 |
| **Segment liabilities:** | 114,929 | 125,182 | 240,111 |
| *Reconciliation:* | | | |
| Corporate and other unallocated liabilities | | | 134,942 |
| Total liabilities | | | 375,053 |

### Geographical information

(a) Revenue from external customers

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Mainland China | 823,598 | 759,088 |
| Other countries | 125,340 | 123,395 |
| | 948,938 | 882,483 |

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 95% of the non-current assets, excluding deferred tax assets and investments 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:

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Revenue from contracts with customers | 948,938 | - |
| Sale of goods | - | 882,483 |
| | 948,938 | 882,483 |

**<u>Revenue from contracts with customers</u>**

(i) Disaggregated revenue information

For the year ended 31 December 2018

| <u>Segments</u> | Intermediates and bulk medicines | Finished drugs | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **Type of goods or services** | | | |
| Sale of goods | 208,426 | 738,419 | 946,845 |
| Rendering of pilot test services | 2,093 | - | 2,093 |
| Total revenue from contracts with customers | 210,519 | 738,419 | 948,938 |
| | | | |
| **Geographical markets** | | | |
| Mainland China | 127,551 | 696,047 | 823,598 |
| Other countries | 82,968 | 42,372 | 125,340 |
| Total revenue from contracts with customers | 210,519 | 738,419 | 948,938 |
| | | | |
| **Timing of revenue recognition** | | | |
| Goods transferred at a point in time | 208,426 | 738,419 | 946,845 |
| Services transferred over time | 2,093 | - | 2,093 |
| Total revenue from contracts with customers | 210,519 | 738,419 | 948,938 |

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

**<u>Revenue from contracts with customers</u> (continued)**

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:

| | 2018 |
|---|---|
| | *RMB'000* |
| Revenue recognised that was included in contract liabilities at the beginning of the reporting period: | |
| Sales of goods | 13,022 |

(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.

*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 transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at the end of the year 2018 is as follows:

| | |
|---|---|
| | *RMB'000* |
| Within one year | 13,897 |

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

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

| | 2018 | 2017 |
|---|---|---|
| **Other income** | *RMB'000* | *RMB'000* |
| Bank interest income | 32,445 | 21,284 |
| Dividend income from financial assets at fair value through profit or loss | 258 | - |
| Dividend income from equity investments at fair value through profit or loss | - | 346 |
| Rental income | 1,431 | 2,241 |
| Government grants | 6,642 | 2,957 |
| Others | 1,107 | 719 |
| | 41,883 | 27,547 |
| **Gains** | | |
| Gain on sales of scrapped materials | 1,445 | 1,046 |
| Gain on disposal of financial assets at fair value through profit or loss | 1,400 | - |
| Gain on disposal of equity investments at fair value through profit or loss | - | 304 |
| Fair value gains, net: | | |
| Financial assets at fair value through profit or loss | 236 | - |
| Equity investments at fair value through profit or loss | - | 1,475 |
| Gain on disposal of a subsidiary | 2,959 | - |
| | 6,040 | 2,825 |
| | 47,923 | 30,372 |

## 5. FINANCE COSTS

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Interest on bank loans wholly repayable within five years | 801 | 13 |
| Interest on discounting of notes receivables | 351 | - |
| | 1,152 | 13 |

## 6. PROFIT BEFORE TAX

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

| | 2018 | 2017 |
|---|---|---|
| | *RMB’000* | *RMB’000* |
| Cost of inventories sold* | 350,727 | 317,544 |
| Depreciation | 50,974 | 51,974 |
| Recognition of land use rights** | 1,041 | 1,041 |
| Research and development costs: | | |
| Amortisation of intangible assets*** | 418 | 460 |
| Current year expenditure | 45,934 | 35,189 |
| | 46,352 | 35,649 |
| Minimum lease payments under operating leases: | | |
| Buildings | 236 | 289 |
| Auditors’ remuneration: | | |
| Statutory audit service | 1,510 | 1,458 |
| Non-statutory audit service | 780 | - |
| Non-audit service | 250 | - |
| | 2,540 | 1,458 |
| Employee benefit expense (including directors’ and chief executive officer’s remuneration): | | |
| Wages and salaries | 95,427 | 87,225 |
| Equity-settled share option expense | 5,312 | 8,511 |
| Retirement benefits | 7,821 | 7,343 |
| Accommodation benefits | 3,866 | 3,621 |
| Other benefits | 14,478 | 13,915 |
| | 126,904 | 120,615 |
| Foreign exchange differences, net | 182 | 6,289 |
| Impairment of intangible assets | 1,697 | - |
| Write-down of inventories to net realisable value | 4,383 | 2,058 |
| Fair value gains, net: | | |
| Financial assets at fair value through profit or loss | (236) | - |
| Equity investments at fair value through profit or loss | - | (1,475) |
| Bank interest income | (32,445) | (21,284) |
| Loss on disposal of items of property, plant and equipment | 346 | 375 |
| Gain on disposal of financial assets at fair value through profit or loss | (1,400) | - |
| Gain on disposal of equity investments at fair value through profit or loss | - | (304) |
| Gain on disposal of a subsidiary | (2,959) | - |
| Expense off of intangible assets | 4,600 | - |

## 6. PROFIT BEFORE TAX (continued)

* The depreciation of RMB40,390,000 for the year (2017: RMB42,160,000) 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 2018 and 2017 are:

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| *Current income tax* | | |
| Current income tax charge | 75,091 | 64,262 |
| *Deferred income tax* | (1,274) | 8,463 |
| Total tax charge for the year | 73,817 | 72,725 |

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% (2017: 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 (2017: 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 and would apply for renewal of the qualification every three years.

All other subsidiaries in Mainland China were subject to the corporate income tax rate of 25% in 2018.

## 7. INCOME TAX (continued)

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.

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:

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Accounting profit before income tax | 377,777 | 365,703 |
| At the PRC's statutory income tax rate of 25% (2017: 25%) | 94,444 | 91,426 |
| Tax effect of profits entitled to tax concession or lower tax rate enacted by local authority | (38,229) | (37,161) |
| Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries | 15,929 | 15,291 |
| Adjustments in respect of current income tax of previous years | 106 | 79 |
| Expenses not deductible for tax | 3,951 | 3,439 |
| Tax credit for qualified research and development costs | (4,549) | (2,347) |
| Tax losses not recognised | 2,813 | 3,152 |
| Tax losses utilised from previous periods | (648) | (1,154) |
| At the effective income tax rate of 19.54% (2017: 19.89%) | 73,817 | 72,725 |

## 8. DIVIDENDS

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Interim – HK$0.015 (2017: HK$0.015**) per ordinary share* | 21,036 | 20,239 |
| Special – HK$0.075 per ordinary share* | 105,179 | - |
| Proposed final – HK$0.06 (2017: HK$0.06**) per ordinary share* | 81,450 | 76,826 |
| | 207,665 | 97,065 |

## 8. DIVIDENDS (continued)

* The number of shares for calculating dividends for year 2018 above already reflects the share sub-division (i.e. sub-division of each of the issued and unissued ordinary shares of par value of HK$0.10 of the Company into two (2) sub-divided shares of par value of HK$0.05 each in the share capital of the Company (the "Sub-divided Share") as approved by the shareholders of the Company in the extraordinary general meeting on 3 August 2018 with effect from 6 August 2018) (the "Share Sub-division"). Further details and definition of the Sub-divided Share and Share Sub-division are set out in the Company's announcement dated 11 July 2018 and the Company's circular dated 18 July 2018.

** In 2017, the proposed interim and final dividend was HK$0.03 and HK$0.12 per ordinary share before the effect of the Share Sub-division. On the assumption that the Share Sub-division had been effective in the prior year, it was HK$0.015 and HK$0.06 per Sub-divided Share after the effect of the Share Sub-division.

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 1,586,382,000 sub-divided shares (2017 (adjusted): 1,594,834,000 sub-divided shares) in issue during the year.

The calculation of diluted earnings per share for the period 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:

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent | 303,960 | 292,978 |

| | Number of shares | |
|---|---|---|
| | 2018 | 2017 |
| | Thousands | Thousands |
| Shares | | |
| Weighted average number of sub-divided shares in issue during the year used in the basic earnings per share calculation | 1,586,382 | 1,594,834 |
| Effect of dilution – weighted average number of sub-divided shares: | | |
| Share options | - | - |
| Weighted average number of sub-divided shares adjusted for the effect of dilution | 1,586,382 | 1,594,834 |

## 10. TRADE AND NOTES RECEIVABLES

| | Notes | 2018 | 2017 |
|---|---|---|---|
| | | *RMB'000* | *RMB'000* |
| Trade receivables | (i) | 199,614 | 184,853 |
| Notes receivable | (ii) | 147,188 | 128,361 |
| | | 346,802 | 313,214 |

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 invoice date and net of loss allowance, is as follows:

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | | |
| Outstanding balances with ages: | | |
| Within 90 days | 170,203 | 168,676 |
| Between 91 and 180 days | 20,030 | 13,218 |
| Between 181 and 270 days | 7,621 | 2,845 |
| Between 271 and 360 days | 1,742 | 30 |
| Over one year | 18 | 84 |
| | 199,614 | 184,853 |

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

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| At beginning of year | - | 437 |
| Amount written off as uncollectible | - | (218) |
| Impairment losses, net | - | (219) |
| | - | - |

## 10. TRADE AND NOTES RECEIVABLES (continued)

The ageing analysis of the trade receivables as at 31 December 2017 that were considered to be impaired under IAS 39 is as follows:

| | 2017 |
|---|---|
| | *RMB'000* |
| Neither past due nor impaired | 168,676 |
| Less than three months past due | 13,218 |
| Over three months past due | 2,959 |
| | 184,853 |

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 as of 31 December 2018 is determined as follows:

As at 31 December 2018

| | Current |
|---|---|
| Expected credit loss rate | <1‰ |
| Gross carrying amount (RMB'000) | 199,614 |
| Impairment (RMB'000) | - |

(ii) Notes receivables previously classified as receivables 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 now classified and measured as debt instruments at fair value through OCI and presented as trade and notes receivables.

*Financial assets that are not derecognised in their entirety*

At 31 December 2018, the Group endorsed certain notes receivable accepted by banks in the PRC (the "Endorsed Notes") with a carrying amount of RMB18,238,000 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 RMB17,564,000 and RMB674,000 as at 31 December 2018, respectively.

## 11. 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:

| | 2018<br>*RMB'000* | 2017<br>*RMB'000* |
|---|---|---|
| Outstanding balances with ages: | | |
| Within 90 days | 83,169 | 102,872 |
| Between 91 and 180 days | 46,661 | 39,485 |
| Between 181 and 270 days | 114 | 155 |
| Between 271 and 360 days | 34 | 138 |
| Over one year | 439 | 754 |
| | 130,417 | 143,404 |

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 RMB17,564,000 as at 31 December 2018.

# CHAIRMAN'S STATEMENT

## GROUP RESULTS

The Group has recorded revenue of approximately RMB948,938,000 for the year ended 31 December 2018 (2017: RMB882,483,000), representing an increase of 7.5% as compared to 2017. Profit attributable to owners of the parent was approximately RMB303,960,000 (2017: RMB292,978,000), representing an increase of 3.7% over 2017.

The increase in the revenue and the profit was primarily attributable to the growth in the sales amount of specific medicines of the Group during the reporting period, and the greater increase in the sales amount of cephalosporin bulk medicines as compared with 2017.

## FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK$0.06 per sub-divided share for the year ended 31 December 2018, amounting to the total sum of approximately HK$95,183,000 (equivalent to approximately RMB81,450,000), to the shareholders whose names appeared in the register of members as of Wednesday, 29 May 2019 subject to the approval of the shareholders at the forthcoming 2019 Annual General Meeting (the "2019 AGM"). Taking into consideration the interim dividend of HK$0.015 per sub-divided share and special dividend of HK$0.075 per sub-divided share paid on 11 October 2018, the total annual dividend distributed for the year is HK$0.15 per sub-divided share. The annual dividend payout ratio remains approximately 33.7% if the one-off special dividend is not counted.

## BUSINESS REVIEW AND PROSPECT

2018 was a key year for deep reform of the system and operational environment of China's pharmaceutical sector, with the successive introduction of polices on the payment under the medical insurance scheme, drug research and development, group purchasing organizations, national essential drug list and otherwise. Driven by various policies, the pharmaceutical industry faced continued pressure from drug price adjustment. In addition, new institutions were established in the reform of state institutions in the first half of 2018 and will, in the opinions of most people, have a material and profound influence on the future health reform.

During the year, due to market fluctuations arising out of the adoption of various policies, there was greater short-term uncertainty, which made it necessary for enterprises to take appropriate and timely management measures to achieve annual business targets in the medium and long-term business planning, in response to recent changes in the market. During the reporting period, the Group continued to see an annual growth in the total sales of specific medicines in the volatile market conditions, with the reputation for the curative effect of drugs and the brand effect for products which have been built for years, and appropriate and effective marketing measures.

In recent years, the Group has gradually stabilized the production quality of bulk medicines and reasonably adjust the production costs through continuously improving the production technology and manufacturing process management of cephalosporin bulk medicines, thus enhancing the product competitiveness. During the reporting period, due to the enhancement of product competitiveness as well as an active market of bulk medicines, the Group reported a significant increase in the sales amount of cephalosporin bulk medicines as compared with 2017, basically reversing losses on intermediate and bulk medicines in the last few financial years.

Looking forward to the future development, as I stated in the 2018 Interim Report of the Company, the government focuses on the supply reform and the control of the growth in public medical expenses, and encourages the pharmaceutical industry to improve product quality and invest more resources in product research and development and technological innovation, through different industrial policies and measures, so as to improve the overall level of China's pharmaceutical industry and make more quality and reliable products available for pharmaceutical consumers.

The Group is deeply aware that there would be continued pressure on the selling prices of drug products, subject to the aforesaid premises. According to the current product mix of the Group and the competition with similar products, the management will continuously adopt a marketing strategy which meets the Group's needs and have products sold in various levels of markets, so as to maintain the Group's sales standards and advantages in terms of specific medicines.

More importantly, the Group understands that improving the product mix in a reasonable, timely and orderly manner according to social needs is the cornerstone for corporate sustainable development, while the most basic reality for the development of new products by an enterprise is that new products must be highly recognized in the market and by consumers after the launch, with the continued increase of sales cycles, so as to achieve a positive growth in cash flow and profit. The existing specific medicines successfully developed by the Group and verified through sales in the market reflect the effective insight of the Group in selecting and developing products as well as its ability to launch new products in the market and successfully sell them. Therefore, the Group will put forth effort to review the organization and research and development orientation of the research and development department, thoroughly review all products under research and research projects, and allocate optimal financial resources to accelerate the implementation of related work.

In addition, following the first step the Company has taken in December 2016 in engaging in research and development of biotech drugs, with the establishment of the joint venture company to develop monoclonal antibody drugs for cholesterol lowering and cancer treatment, the Group has also pursued an outward expansion, with the implementation of a plan to acquire chemical pharmaceutical enterprises from external parties with a view to diversify the Group's chemical pharmaceutical product mix within a reasonable period of time. Meanwhile, the Group has established a R&D-based enterprises by joint venture with companies having strong R&D strength to build a new research and development platform which operates independently, and focus on new drug products which are developed, using new technologies of drug delivery systems, so as to meet the market demand for drugs in innovative dosage forms.

Although the pharmaceutical industry has to face the pressure from the continuous adjustment of product prices, the huge population, accelerated ageing population and improvement in the actual spending power of consumers and other factors have provided considerable room and opportunities for the development of China's pharmaceutical market. Subject to the successful implementation of various business plans and expansion projects, the Company is cautiously optimistic about the future development of the Group.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF OPERATIONS

During the review period, under the pressure of intense market competition, sales of the Group's anti-hypertensive drug in "An" (安) series medicines and anti-allergic drug "Xikewei" (西可韋) (Cetirizine Hydrochloride Tablets) increased slightly as compared to 2017. "Leiyide" (雷易得) (Entecavir Dispersible Tablets) continued to see an increase in sales in Mainland China, but the failure of Hong Kong GSK to win the bid in 2018 led to a decrease in the sales of "Leiyide" (雷易得) exported by the Group, thus resulting in a slight decrease in the overall sales of "Leiyide" (雷易得). Sales of cephalosporin finished medicines was relatively stable. The competitiveness of cephalosporin intermediates and bulk medicines was enhanced significantly due to continuous improvement in product quality and production cost reduction by the Group. The turnover increased by 34.2%, while for the segment results, there was a turnaround from years of losses to profits.

During the period, the Group's marketing management team closely checked the effectiveness of various business plans, adjusted the Group's marketing ideas and sales strategies properly in line with the rapid market changes, strengthened allocation of resources, and optimized supply and sales system, in an effort to maintain the market shares. The Group's marketing management team will continue deepening the market, make efforts to further improve the organization control over the market at various levels, and endeavor to ensure the reasonable increase in sales amount of that series of medicines in 2019, thereby making contributions to the Group's profitability.

*Anti-Hypertensive Products*

Hypertension is the most common chronic non-communicable disease. According to medical statistics, the prevalence rate of hypertension among Chinese residents aged 18 and above is over 25%, so anti-hypertensive drugs have a broad market prospect. The Group paid special attention to market development in this field, and participated in the national "Chinese Hypertension Intervention Efficacy Study" (CHIEF). The Group cooperated with more than 150 medical institutions to provide anti-hypertensive drugs for over 10,000 patients, so the Group enjoyed favorable brand reputation among doctors and hypertension patients.

During the period, considering the tendency that the product market of common anti-hypertensive drugs extended downwards from the first terminal, the Group's marketing management carried out precise design and control of the key marketing impact points such as sales channels and sales price of major product "Anneizhen" (安內真) (Amlodipine Besylate Tablets), strengthened allocation of resources, and attached importance to reinforcing the promotion activities of the second and third market terminals, thereby ensuring the continual sales of such products on the market and guaranteeing the stability of market shares. Based on the Group's integration of the survey data of market research institutions, the sales of "Anneizhen" (安內真) was placed the leading position among similar products on the second and third market terminals in many cities and provinces, and occupied considerable market shares. Moreover, the sales of another anti-hypertensive drug "Anneixi" (安內喜) (Losartan Potassium and Hydrochlorothiazide Tablets) of the Group recorded an increase of 31.0% compared with 2017. Ever since 2016, the Group's marketing management team made a decision on transformation of the sales model of "Anneixi" (安內喜), which made great progress in 3 years, and was placed the leading position among domestic brands in terms of sales. Along with the further refined management in future, it is anticipated that "Anneixi" (安內喜) will become the Group's second star product for anti-hypertension. In the future, the Group's marketing management team will focus more attention on brand planning, channel planning, price planning and academic promotion of the "An" (安) series products, strengthen the access design of products to different markets by closely following up national policies related to chronic disease management, and further expand the new market.

*Antiviral Products*

According to market information, Entecavir is currently "basic" medicine for clinical treatment of hepatitis B, accounting for more than half of the nucleoside drugs. In 2017, the market scale of the single variety of Entecavir in China exceeded RMB5 billion. There was a steady increase in the domestic market share of "Leiyide" (雷易得) of the Group by virtue of the "unique cyclodextrin inclusion technology" and the "international quality" strengths. During the period, under the full efforts of the Group's sales teams, all the market promotion work was successfully implemented, better domestic sales results than expected were obtained, remarkable growth in sales amount as compared to 2017 was recorded, and the long-term stable market foundation was laid for "Leiyide" (雷易得). Meanwhile, in response to change in national medical insurance policies and the implementation of group purchasing organizations, the Group adjusted marketing strategies in a timely manner, enhanced academic promotion, and further tapped the market potential of the product.

*Anti-Allergic Products*

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

*Finished Cephalosporin Products*

The finished cephalosporin product has long been occupying a significant share of China's antibiotics market due to its good efficacy and safety, and will always have a broad market space because of factors such as environmental pollution (e.g., haze) and enormous social population. In recent years, the restriction of antibiotics, tenders and other factors have inhibited the R&D, production and sales of the Group's products. In view of this, the Group's management optimized the product mix by referring to the actual market circumstances and by combining the corporate strengths, and made certain achievements in satisfying the productivity, profitability and sales volume. Meanwhile consistency evaluation was actively carried out, which laid a good foundation for the subsequent development of the products.

*Intermediates and Bulk Medicines*

During the review period, there was a greater improvement in product competitiveness for the Group's business of intermediates and bulk medicines for cephalosporin antibiotics, due to product quality improvement and production cost reduction, and there was a turnaround from years of losses to segment profit for such business. Meanwhile, related review and filing work was actively carried out, which further stabilized the market share.

*Product R&D*

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

*Consistency Evaluation*

As at 31 December 2018, the Group carried out quality consistency research of 17 varieties, of which clinical researches into the bio-equiavailability (BE) of 6 varieties had been completed and applications for consistency evaluation for 5 varieties of them were submitted to the Center for Drug Evaluation, CFDA. Among them, applications of two varieties (Anneizhen (安內真) 5mg and Leiyide (雷易得) 0.5mg) were approved. In addition, clinical research into the bio-equiavailability (BE) is being done for another one variety.

*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 2018, the Group's production volume and sales volume of intermediates and bulk medicines respectively increased by 12.7% and 4.1% as compared to that in 2017. The production volume and sales volume of cephalosporin powder for injection increased by 55.7% and 26.9% respectively, as compared with last year. The increase in the sales volume of powder for injection was mainly due to processing agency businesses. The production volume of solid-dosage-forms increased by 12.6% as compared with last year, while the sales volume was basically in line with last year. As for the international business, the Group kept expanding its overseas market, with a slight increase in the sales in the overseas market in spite of the failure to win the bid in respect of "Leiyide" (雷易得) in the Hong Kong market. The sales in the overseas market accounted for 13.2% of the overall sales of the Group, representing a decrease of 0.8 percentage points as compared with last year.

## NEW PRODUCTS AND PATENT LICENSING

(1) In 2018, applications were submitted to Jiangsu Food and Drug Administration for registration of a total of 11 varieties (including 6 supplementary applications and 5 re-registration applications); 5 re-registration approvals and 6 supplementary filing cases were obtained.

(2) One invention patent was obtained in 2018

A national invention patent (Patent No. ZL201510368880.2) was granted for "A Photo-degradation Product of Ceftriaxone Sodium and Its Preparation Method and Analytical Detection Method" in June 2018.

(3) Two utility model patent certificates were obtained in 2018

(i) An utility model patent certificate (Patent No. ZL201720983181.3) was granted for "A System for Recycling the Dichloromethane in Cephalosporin Synthesis" in April 2018.

(ii) An utility model patent certificate (Patent No. ZL201820948153.2) was granted for "A Metformin Hydrochloride Tablet Tableting Device" in January 2019.

## HONORS AWARDED IN 2018

| Time of Awards | Honors |
|---|---|
| March 2018 | Suzhou Dawnrays Pharmaceutical Co., Ltd. was honored as “Top Ten New Economy Enterprises of Jiangsu Province” (The First Session) jointly by Jiangsu Provincial Brand Strategy Promotion Committee (江蘇名牌事業促進會), Jiang Su Province Enterprise Directors Association (江蘇省企業家協會) and Jiangsu Federation of Industrial Economics (江蘇省工業經濟聯合會). |
| June 2018 | Suzhou Dawnrays Pharmaceutical Co., Ltd. was rated by Jiangsu Economic and Information Technology Commission (江蘇省經濟和資訊化委員會) as the “Pilot Enterprise for the Implementation of Integration of Information Technology and Industrialization Management System in Jiangsu in 2018”. |
| September 2018 | “Xikewei (西可韋) Cetirizine Hydrochloride Tablets” of Suzhou Dawnrays Pharmaceutical Co., Ltd. was rated by Suzhou Famous-brand Product Identification Commission (蘇州市名牌產品認定委員會) as the “2018 Suzhou Famous-brand Product”. |
| November 2018 | - Suzhou Dawnrays Pharmaceutical Co., Ltd. was honored by Suzhou Economic and Information Technology Commission (蘇州市經濟和資訊化委員會) as the “Demonstration Enterprise for Specialization, Refinement, Characteristic and Novelty in Suzhou in 2018”.<br>- The 2018 Excellent Product Brand in the Pharmaceutical Industry in Jiangsu was granted for both “Amlodipine Besylate Tablets” and “Entecavir Dispersible Tablets” of Suzhou Dawnrays Pharmaceutical Co., Ltd.<br>- Suzhou Dawnrays Pharmaceutical Co., Ltd. was awarded as “Top 100 Enterprises of China’s Chemical Pharmaceutical Industry in Integrated Corporate Strength in 2018.” with the company’s product “Amlodipine Besylate Tablets (“Anneizhen”安內真) was awarded as Excellent Product Brand in Anti-Hypertensive Class of China’s Chemical Pharmaceutical Industry in 2018. |
| January 2019 | Suzhou Dawnrays Pharmaceutical Co., Ltd. was honored as “Top 10 Star Enterprises (Industrial) in the Development Zone in 2018” by the Management Commission of Suzhou Wuzhong Economic Development Zone (蘇州吳中經濟開發區管委會). |
| February 2019 | - Suzhou Dawnrays Pharmaceutical Co., Ltd. was granted the titles of “Top 100 Enterprises in the Real Economy in Wuzhong District in 2018” and “Advanced Enterprise in the Manufacturing Industry in Wuzhong District in 2018 in Terms of Transformation and Upgrade” by the government of Wuzhong District, Suzhou City.<br>- Suzhou Dawnrays Pharmaceutical Co., Ltd. was rated by Suzhou Wuzhong Economic Development Zone as the “2018 Outstanding Contribution Unit” and the “Innovative and Transforming Enterprise”. |

# FINANCIAL REVIEW

## SALES AND GROSS PROFIT

For the year ended 31 December 2018, the Group recorded a turnover of approximately RMB948,938,000, increased by RMB66,455,000 or 7.5% compared with last year. Of which the turnover of intermediates and bulk medicines was RMB210,519,000, increased by RMB53,637,000 or 34.2% compared with last year. The turnover of finished drugs was RMB738,419,000, increased by RMB12,818,000 or 1.8% compared with last year. The reasons for the increase in turnover mainly attributed to growth in sales of intermediates and bulk medicines.

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 RMB738,419,000. Taking into account of the total turnover, sales amount of finished drugs was approximately 77.8%, decreased by 4.4 percentage points compared with last year. Sales amount of system specific medicines accounted for 91.3% of sales of finished drugs.

Gross profit was approximately RMB595,029,000, increased by RMB33,480,000 compared with last year, representing an increase of 6.0%. Gross profit margin decreased by approximately 0.9 percentage points to 62.7% from 63.6% as in last year. It was mainly due to the increased sales proportion of intermediates and bulk medicines.

## TABLE OF TURNOVER ANALYSIS

| PRODUCT | TURNOVER | | | SALES BREAKDOWN | | |
|---|---|---|---|---|---|---|
| | (RMB'000) | (RMB'000) | (RMB'000) | (%) | (%) | Percentage points |
| | **2018** | 2017 | Changes | **2018** | 2017 | Changes |
| Intermediates and Bulk Medicines | **210,519** | 156,882 | 53,637 | **22.2** | 17.8 | 4.4 |
| Finished Drugs | **738,419** | 725,601 | 12,818 | **77.8** | 82.2 | -4.4 |
| Overall | **948,938** | 882,483 | 66,455 | **100.0** | 100.0 | 0.0 |

## EXPENSES

During the year, the total expenses incurred were approximately RMB251,126,000, equivalent to 26.5% of turnover (2017: 24.9%). The total expenses increased by approximately RMB31,590,000 compared with last year which was RMB219,536,000. The selling and distribution expenses increased by RMB18,768,000 compared with last year due to adjustment in sales model. Administrative expenses increased by RMB693,000 compared with last year. Other expenses increased by RMB10,990,000 compared with last year, mainly due to the increase in research and development expenses.

## SEGMENT PROFIT

For the year ended 31 December 2018, the segment profit of finished drugs segment was approximately RMB489,683,000, increased by RMB1,472,000 when compared with 2017 which was RMB488,211,000. The segment results of intermediates and bulk medicines segment recorded gain of approximately RMB2,912,000. The earnings increased by RMB8,267,000 compared with the loss of RMB5,355,000 in 2017. As the Group had strict control in the production cost of cephalosporin bulk medicines, the overall production cost reduced and as a result, the Group's intermediates and bulk medicines business was in a turnaround.

## INTERESTS AND RIGHTS IN ASSOCIATE

During the year, AD Pharmaceuticals Co., Ltd., which was invested by the Group's subsidiary Dawnrays Biotechnology Capital (Asia) Ltd., has carried out the Phase I clinical trial for AK102, a monoclonal antibody agent and received clinical trial approval document for AK109, a monoclonal antibody agent. For the year ended 31 December 2018, AD Pharmaceuticals Co., Ltd. reported loss for the year of RMB40,140,000 including the R&D and administrative expenses of approximately RMB40,727,000 in total. As a result, the Group shared, in proportion to the investment percentage, an investment loss of approximately RMB14,049,000. It was RMB6,682,000 in 2017.

## PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

For the year ended 31 December 2018, profit attributable to owners of the parent amounted to approximately RMB303,960,000, representing an increase of RMB10,982,000 or 3.7% compared with RMB292,978,000 in last year. Such increase was primarily attributable to the increase in profit contribution from "An"(安) series products of the system specific medicines, and profit occurred from business of intermediates and bulk medicines.

## ANALYSIS ON THE RETURN ON ASSETS

As at 31 December 2018, net assets attributable to owners of the parent were approximately RMB1,921,162,000. 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 15.8% (2017: 16.2%). The current ratio and quick ratio was 5.34 and 4.88 respectively. Turnover days for trade receivables were approximately 73 days. The turnover days for trade receivables including bills receivables were 125 days. Turnover days for inventory were approximately 137 days.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had cash and bank balance approximately RMB645,363,000 (as at 31 December 2017: RMB611,077,000).For the purpose of operating the idle funds more effectively and improve returns, the Group has purchased wealth management products and bonds from several banks in Mainland China. As at 31 December 2018, the financial asset at fair value through profit or loss was RMB189,393,000 (as at 31 December 2017: RMB8,743,000), of which, floating interest rate principal-preservation type of wealth management products amounted to RMB110,766,000 and one-year bonds issued by China Development Bank amounted to RMB70,478,000. In addition, in other receivables, an amount of RMB350,000,000 was fixed interest rate principal-preservation type of wealth management products. The principal and interest of these principal-preservation type of wealth management products can be received on maturity date. During the year, the net cash inflows from operating activities was approximately RMB274,294,000 (2017: RMB390,741,000). Net cash outflows used in investing activities was approximately RMB12,736,000 (2017: RMB452,396,000). Net cash outflows used in financing activities was approximately RMB204,193,000 (2017: RMB137,862,000).

As at 31 December 2018, the Group had aggregate bank facilities of approximately RMB1,402,762,000 (as at 31 December 2017: RMB918,341,000), of which, bank facilities of HK$117,000,000 were secured by corporate guarantee of the Company. As at 31 December 2018, the Group had no bank loans. Its debt ratio (defined as sum of interest-bearing bank loans over total assets) was 0% (as at 31 December 2017: 0%).

As at 31 December 2018, the Group had trade receivables of approximately RMB199,614,000 (as at 31 December 2017: RMB184,853,000), mainly due to the influence of changes in sales model of pharmaceutical enterprises resulted from the implementation of “two-invoice system” throughout pharmaceutical industry in Mainland China.

As at 31 December 2018, the Group had the inventory balance of approximately RMB148,043,000 (as at 31 December 2017: RMB121,133,000).

As at 31 December 2018, the Group’s contracted but not provided for plant and machinery capital commitments and capital contributions payable to an assoicate amounted to approximately RMB84,130,000 (as at 31 December 2017: RMB4,500,000), which mainly derived from workshop transformation in Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. and staff dorm renovation and minor works in Suzhou Dawnrays Pharmaceutical Co., Ltd and capital investment in an associate.

Due to the urban planning adjustment of Wuzhong Economic Development District by Suzhou Municipal People’s Government, Suzhou Dawnrays Pharmaceutical Co., Ltd., a wholly-owned subsidiary of the Group, entered into the Relocation Compensation Agreement with the government where it operates on 20 December 2017. Both parties agreed the relocation compensation amount was approximately RMB351,200,000. In January 2018, Suzhou Dawnrays Pharmaceutical Co., Ltd. received the first relocation compensation of RMB70,238,000.

During the period, Dawnrays International Co. Ltd., the Group’s subsidiary, transferred all the equity of Guangdong Dawnrays Pharmaceutical Co., Ltd., its subsidiary which had suffered from consecutive loss, to an independent third party at the price of RMB2,900,000, and relevant equity transfer formalities have been completed. The registered capital of Guangdong Dawnrays Pharmaceutical Co., Ltd. was RMB3,000,000, and the net liabilities at time of disposal were RMB59,000.

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

At the beginning of 2018, the Group adopted foreign exchange forward contract to hedge against foreign exchange rate risk, as a result, as at 31 December 2018, the loss in exchange difference was RMB182,000 only. 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 2018, the Group employed approximately 856 employees and the total remuneration was approximately RMB126,904,000 (2017: RMB120,615,000). The Group regards human resources as the most valuable assets and truly understands the importance of attracting and retaining high-performance employees. The remuneration policy is generally based on the references of market salary index and individual qualifications. The Group provides its employees with other fringe benefits, including defined contribution retirement schemes, share option scheme and medical coverage. The Group also offers some of its employees stationed in the PRC with dormitory accommodation.

## CHARGES ON ASSETS

As at 31 December 2018, the Group had not pledged any assets to banks to secure credit facilities granted to its subsidiaries (as at 31 December 2017: Nil).

## CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no material contingent liabilities.

## EVENTS AFTER THE REPORTING PERIOD

In order to enhance the Group's R&D, production and selling ability, diversify the product lines and improve the future profitability of the Group, the Group entered into a framework agreement with "Supper Fort Holdings Limited", an independent third party, on 27 February 2019 after the reporting period, in respect of the acquisition of the entire issued share capital of TOP FIELD LIMITED, the target company, at a consideration of HK$438 million (subject to adjustment), subject to the formal sale and purchase agreement.

In order to maintain continuous and sound development of the Group's businesses, expanding its business cope and increasing new sources of profit, it sought external sources and carried out business cooperation. On 15 March 2019 after the reporting period, Suzhou Dawnrays Pharmaceutical Co., Ltd., a subsidiary of the Group, signed an agreement with Guangzhou Huaqi Yixin Technology Co., Ltd. (廣州華啟醫信科技有限公司) and Zhuhai Changze Ruide Technology Enterprise (珠海長澤睿德科技企業) (limited partnership) (both independent third parties), in respect of the establishment of Nanjing PharmaRays Science and Technology Ltd. (tentative name), a R&D-oriented joint venture company, in order to build a new research and development platform which operates independently, and focus on new drug products which are developed, using new technologies of drug delivery systems, so as to meet the market demand for drugs in innovative dosage forms. The registered capital of such company was RMB50 million, which was owned as to 65% by Suzhou Dawnrays Pharmaceutical Co., Ltd.

## PLANS FOR SIGNIFICANT INVESTMENTS AND EXPECTED SOURCE OF FUNDING

Save for those disclosed above in connection with capital commitments under the section "Liquidity and Financial Resources", and increase of registered capital and capital for relocation plans as mentioned in the Annual Report 2017 and the "Events after the Reporting Period" above, 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.

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

During the year, 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 2018.

## 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 2018.

## 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 2018 annual report.

## AUDIT COMMITTEE

The audited financial statements of the Company for the year ended 31 December 2018 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 2018 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$0.06 per sub-divided share payable to shareholders whose names appear in the Register of Members of the Company on Wednesday, 29 May 2019. The proposed final dividend of HK$0.06 per sub-divided share, the payment of which is subject to approval of the shareholders at the 2019 AGM of the Company to be held on Friday, 24 May 2019, is to be payable on Wednesday, 19 June 2019 to shareholders.

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

(i) from Monday, 20 May 2019 to Friday, 24 May 2019, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2019 AGM. In order to be eligible to attend and vote at the 2019 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, 17 May 2019 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, 30 May 2019 to Friday, 31 May 2019, 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, 29 May 2019 with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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

## APPRECIATION

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

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

Hong Kong, 21 March 2019

*As at the date of this announcement, the Board of the Company comprises three executive directors, namely Ms. Li Kei Ling, Mr. Hung Yung Lai and Mr. Chen Shaojun; one non-executive director, namely Mr. Leung Hong Man; three independent non-executive directors, namely Mr. Lo Tung Sing Tony, Mr. Ede, Ronald Hao Xi and Ms. Lam Ming Yee Joan.*