**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 2015

RESULTS HIGHLIGHTS

| | For the year ended 31 December | | |
|---|---|---|---|
| | 2015 | 2014 | Changes |
| Revenue (RMB'000) | 985,000 | 783,803 | +25.7% |
| Gross profit (RMB'000) | 569,388 | 459,919 | +23.8% |
| Gross profit margin (%) | 57.8% | 58.7% | -0.9 percentage points |
| Profit before tax (RMB'000) | 377,189 | 258,893 | +45.7% |
| Profit for the year (RMB'000) | 302,198 | 205,145 | +47.3% |
| Net profit margin (%) | 30.7% | 26.2% | +4.5 percentage points |
| Earnings per share attributable to ordinary equity holders of the parent-basic (RMB) | 0.3758 | 0.2547 | +47.5% |
| Proposed final dividend per share (HK$) | 0.12 | 0.085 | +41.2% |

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 2015 (the "reporting period") together with the comparative amounts for 2014 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

**Year ended 31 December 2015**

| | Notes | 2015 | 2014 |
|---|---|---|---|
| | | *RMB'000* | *RMB'000* |
| **REVENUE** | 5 | 985,000 | 783,803 |
| Cost of sales | | (415,612) | (323,884) |
| **Gross profit** | | 569,388 | 459,919 |
| Other income and gains | 5 | 31,481 | 18,728 |
| Selling and distribution expenses | | (94,471) | (99,412) |
| Administrative expenses | | (74,940) | (61,009) |
| Other expenses | | (52,745) | (56,529) |
| Finance costs | 6 | (1,524) | (2,804) |
| **PROFIT BEFORE TAX** | 7 | 377,189 | 258,893 |
| Income tax expense | 8 | (74,991) | (53,748) |
| **PROFIT FOR THE YEAR** | | 302,198 | 205,145 |
| Attributable to: | | | |
| Owners of the parent | | 302,198 | 205,145 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | 10 | | |
| - basic, for profit for the year | | RMB0.3758 | RMB0.2547 |
| - diluted, for profit for the year | | RMB0.3747 | RMB0.2540 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**Year ended 31 December 2015**

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **PROFIT FOR THE YEAR** | 302,198 | 205,145 |
| Other comprehensive loss to be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences | (1,343) | (2,195) |
| **OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX** | (1,343) | (2,195) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | 300,855 | 202,950 |
| Attributable to: | | |
| Owners of the parent | 300,855 | 202,950 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 31 December 2015

| | Notes | 2015 | 2014 |
|---|---|---|---|
| | | *RMB'000* | *RMB'000* |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | 597,233 | 626,185 |
| Land use rights | | 41,216 | 42,257 |
| Construction in progress | | 4,304 | 13,086 |
| Intangible assets | | 18,629 | 15,814 |
| Deferred tax assets | | 9,131 | 6,123 |
| Total non-current assets | | 670,513 | 703,465 |
| **CURRENT ASSETS** | | | |
| Inventories | | 147,747 | 87,581 |
| Trade and notes receivables | 11 | 282,173 | 200,062 |
| Prepayments, deposits and other receivables | | 13,830 | 17,805 |
| Equity investments at fair value through profit or loss | | 3,683 | 5,440 |
| Cash and bank | | 685,790 | 679,047 |
| Total current assets | | 1,133,223 | 989,935 |
| **CURRENT LIABILITIES** | | | |
| Trade and notes payables | 12 | 143,128 | 107,385 |
| Other payables and accruals | | 114,400 | 99,809 |
| Interest-bearing bank loans | | 8,847 | 188,268 |
| Income tax payable | | 18,050 | 11,173 |
| Total current liabilities | | 284,425 | 406,635 |
| NET CURRENT ASSETS | | 848,798 | 583,300 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,519,311 | 1,286,765 |
| **NON-CURRENT LIABILITIES** | | | |
| Government grants | | 2,683 | 3,475 |
| Deferred tax liabilities | | 42,752 | 35,010 |
| Total non-current liabilities | | 45,435 | 38,485 |
| **Net assets** | | 1,473,876 | 1,248,280 |
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | | 85,206 | 85,348 |
| Reserves | | 1,388,670 | 1,162,932 |
| **Total equity** | | 1,473,876 | 1,248,280 |

*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"). 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 2015. 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 in the accounting policy for subsidiaries above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IAS 19 *Defined Benefit Plans: Employee Contributions*
*Annual Improvements to IFRSs 2010-2012 Cycle*
*Annual Improvements to IFRSs 2011-2013 Cycle*

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

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

## 3. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| IFRS 9 | *Financial Instruments*[3] |
| Amendments to IFRS 10 and IAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[6] |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | *Investment Entities: Applying the Consolidation Exception*[1] |
| Amendments to IFRS 11 | *Accounting for Acquisitions of Interests in Joint Operations*[1] |
| IFRS 14 | *Regulatory Deferral Accounts*[5] |
| IFRS 15 | *Revenue from Contracts with Customer*[3] |
| IFRS 16 | *Leases* [4] |
| Amendments to IAS 1 | *Disclosure Initiative*[1] |
| Amendments to IAS 7 | *Disclosure Initiative* [2] |
| Amendments to IAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses* [2] |
| Amendments to IAS 16 and IAS 38 | *Clarification of Acceptable Methods of Depreciation and Amortisation*[1] |
| Amendments to IAS 16 and IAS 41 | *Agriculture: Bearer Plants*[1] |
| Amendments to IAS 27 | *Equity Method in Separate Financial Statements*[1] |
| *Annual Improvements 2012-2014 Cycle* | Amendments to a number of IFRSs[1] |

[1] Effective for annual periods beginning on or after 1 January 2016
[2] Effective for annual periods beginning on or after 1 January 2017
[3] Effective for annual periods beginning on or after 1 January 2018
[4] Effective for annual periods beginning on or after 1 January 2019
[5] Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group
[6] No mandatory effective date yet determined but is available for adoption

## 3. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. During 2015, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively.

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 standard will supersede all current revenue recognition requirements under IFRSs. In July 2015, the IASB issued an amendment to IFRS 15 regarding a one-year deferral of the mandatory effective date of IFRS 15 to 1 January 2018. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in IAS 1;

## 3. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 7 require companies to provide information about changes in disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group expects to adopt the amendments from 1 January 2017. The amendments are not expected to have any significant impact on the Group's financial statements.

IAS 12 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments clarify the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice. The amendments clarify that unrealised losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can give rise to deductible temporary differences. The amendments also clarify that the carrying amount of an asset does not limit the estimation of probable future taxable profits; and that when comparing deductible temporary differences with future taxable profits, the future taxable profits excludes tax deductions resulting from the reversal of those deductible temporary differences.

The amendments are effective for annual periods beginning on or after 1 January 2017 and to be applied retrospectively. The Group expects to adopt the amendments from 1 January 2017. The amendments are not expected to have any significant impact on the Group's financial statements.

The IAS 27 Amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRSs and electing to change to the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements are required to apply the change retrospectively. The amendments will not be applicable to the Group's consolidated financial statements.

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

## 4. 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.

| **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 |

4. **SEGMENT INFORMATION (continued)**

| **Year ended 31 December 2014** | 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 | 150,032 | 633,771 | - | 783,803 |
| Intersegment sales | 64,775 | - | (64,775) | - |
| | 214,807 | 633,771 | (64,775) | 783,803 |
| **Segment results** | (30,769) | 381,250 | - | 350,481 |
| *Reconciliation:* | | | | |
| Unallocated gains | | | | 17,143 |
| Corporate and other unallocated expenses | | | | (105,927) |
| Finance costs | | | | (2,804) |
| Profit before tax | | | | 258,893 |

| **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 |

## 4. SEGMENT INFORMATION (continued)

| **As at 31 December 2014** | Intermediates and bulk medicines *RMB'000* | Finished drugs *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| **Segment assets:** | 399,095 | 491,756 | 890,851 |
| *Reconciliation:* | | | |
| Corporate and other unallocated assets | | | 802,549 |
| Total assets | | | 1,693,400 |
| **Segment liabilities:** | 96,546 | 68,250 | 164,796 |
| *Reconciliation:* | | | |
| Corporate and other unallocated liabilities | | | 280,324 |
| Total liabilities | | | 445,120 |

**Geographical information**

(a) Revenue from external customers

| | 2015 *RMB'000* | 2014 *RMB'000* |
|---|---|---|
| Mainland China | 861,111 | 692,680 |
| Other countries | 123,889 | 91,123 |
| | 985,000 | 783,803 |

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, exclude deferred tax assets, of the Group are located in Mainland China. Therefore, no further analysis of geographical information is presented.

**Information about major customers**

Revenue of approximately RMB213,940,000 (2014: RMB147,513,000) was derived from sales by the finished drugs segment to a single customer.

## 5. 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:

| | 2015 *RMB'000* | 2014 *RMB'000* |
|---|---|---|
| **Revenue** | | |
| Sale of goods | 985,000 | 783,803 |
| **Other income** | | |
| Bank interest income | 21,890 | 13,900 |
| Dividend income from equity investments at fair value through profit or loss | 159 | 267 |
| Foreign exchange differences | 2,951 | - |
| Government grants | 3,689 | 2,484 |
| Others | 2,624 | 1,715 |
| | 31,313 | 18,366 |
| **Gains** | | |
| Gain on disposal of equity investments at fair value through profit or loss | 168 | 158 |
| Fair value gains, net: | | |
| Equity investments at fair value through profit or loss | - | 204 |
| | 168 | 362 |
| | 31,481 | 18,728 |

## 6. FINANCE COSTS

| | 2015 *RMB'000* | 2014 *RMB'000* |
|---|---|---|
| Interest on bank loans wholly repayable within five years | 1,524 | 2,804 |

## 7. PROFIT BEFORE TAX

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

| | 2015 *RMB'000* | 2014 *RMB'000* |
|---|---|---|
| Cost of inventories sold* | 412,153 | 321,251 |
| Depreciation | 53,250 | 45,519 |
| Recognition of land use rights** | 1,041 | 1,041 |
| Research and development costs: | | |
| Amortisation of intangible assets*** | 639 | 708 |
| Current year expenditure | 31,921 | 30,681 |
| | 32,560 | 31,389 |
| Minimum lease payments under operating leases: | | |
| Buildings | 888 | 846 |
| Auditors' remuneration | 1,388 | 1,388 |
| Employee benefit expense (including directors' and chief executive officer's remuneration): | | |
| Wages and salaries | 86,621 | 68,849 |
| Equity-settled share option expense | 8,892 | 2,968 |
| Retirement benefits | 7,464 | 6,717 |
| Accommodation benefits | 3,464 | 3,081 |
| Other benefits | 12,170 | 11,850 |
| | 118,611 | 93,465 |
| Foreign exchange differences, net | (2,951) | 6,401 |
| Impairment of property, plant and equipment | - | 2,177 |
| Reversal and write-off of impairment of trade receivables | - | (442) |
| Write-down of inventories to net realisable value | 15,800 | 15,074 |
| Fair value losses/(gains), net: | | |
| Equity investments at fair value through profit or loss | 594 | (204) |
| Bank interest income | (21,890) | (13,900) |
| Loss on disposal of items of property, plant and equipment | 222 | 112 |
| Expense off intangible assets | - | 550 |
| Gain on disposal of equity investments at fair value through profit or loss | (168) | (158) |

* The depreciation of RMB43,583,000 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.

## 8. INCOME TAX

The major components of income tax expense for the years ended 31 December 2015 and 2014 are:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| *Current income tax* | | |
| Current income tax charge | 70,257 | 50,089 |
| Adjustments in respect of current income tax in previous years | - | 1,105 |
| *Deferred income tax* | 4,734 | 2,554 |
| Total tax charge for the year | 74,991 | 53,748 |

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 a statutory corporate income tax rate of 16.5% (2014: 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 (2014: 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 2015.

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.

## 8. INCOME TAX (continued)

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

| | 2015<br>*RMB'000* | 2014<br>*RMB'000* |
|---|---|---|
| Accounting profit before income tax | 377,189 | 258,893 |
| At the PRC's statutory income tax rate of 25% (2014: 25%) | 94,297 | 64,723 |
| Tax effect of profits entitled to tax concession or lower tax rate enacted by local authority | (38,477) | (28,082) |
| Effect of withholding tax on the distributable profits of the Group's PRC subsidiaries | 16,521 | 11,282 |
| Adjustments in respect of current income tax of previous years | - | 1,105 |
| Expenses not deductible for tax | 2,347 | 130 |
| Tax credit for qualified research and development expense | (2,216) | (1,909) |
| Tax losses not recognised | 2,915 | 6,499 |
| Tax losses utilised from previous periods | (396) | - |
| At the effective income tax rate of 19.88% (2014: 20.76%) | 74,991 | 53,748 |

## 9. DIVIDENDS

| | 2015<br>*RMB'000* | 2014<br>*RMB'000* |
|---|---|---|
| Interim – HK$0.03 (2014: HK$0.025) per ordinary share | 19,980 | 16,002 |
| Proposed final – HK$0.12 (2014: HK$0.085) per ordinary share | 80,648 | 54,697 |
| | 100,628 | 70,699 |

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

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 804,079,978 (2014: 805,342,789) 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:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Earnings | | |
| Profit attributable to ordinary equity holders of the parent | 302,198 | 205,145 |

| | Number of shares | |
|---|---|---|
| | 2015 | 2014 |
| | Thousands | Thousands |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | 804,080 | 805,343 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options | 2,473 | 2,391 |
| Weighted average number of ordinary shares adjusted for the effect of dilution | 806,553 | 807,734 |

## 11. TRADE AND NOTES RECEIVABLES

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | 118,482 | 86,531 |
| Impairment | (437) | (437) |
| | 118,045 | 86,094 |
| Notes receivable | 164,128 | 113,968 |
| | 282,173 | 200,062 |

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:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade receivables | | |
| Outstanding balances with ages: | | |
| Within 90 days | 99,219 | 62,080 |
| Between 91 and 180 days | 12,019 | 13,667 |
| Between 181 and 270 days | 6,807 | 6,279 |
| Between 271 and 360 days | - | 2,465 |
| Over one year | - | 1,603 |
| | 118,045 | 86,094 |

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

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| At 1 January | 437 | 879 |
| Impairment losses reversed or written off | - | (442) |
| At 31 December | 437 | 437 |

## 11. TRADE AND NOTES RECEIVABLES (continued)

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 (2014: 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:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Neither past due nor impaired | 108,936 | 62,080 |
| Less than three months past due | 5,454 | 13,667 |
| Over three months past due | 3,655 | 10,347 |
| | 118,045 | 86,094 |

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 2015, the Group endorsed certain notes receivable accepted by banks in the PRC (the "Endorsed Notes") with a carrying amount of RMB19,117,000 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 RMB16,963,000 and RMB2,154,000 as at 31 December 2015, respectively.

*Financial assets that are derecognised in their entirety*

At 31 December 2015, the Group endorsed certain notes receivable accepted by banks in the PRC (the "Derecognised Notes") to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB33,865,000. The Derecognised Notes have a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Notes have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all the risks and rewards relating to the Derecognised Notes. Accordingly, it has derecognised the full carrying amounts of the Derecognised Notes and the associated trade payables. The maximum exposures to loss from the Group's Continuing Involvement in the Derecognised Notes and the undiscounted cash flows to repurchase these Derecognised Notes are equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Notes are not significant.

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Notes. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year.

## 12. 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:

| | 2015 | 2014 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Outstanding balances with ages: | | |
| Within 90 days | 101,515 | 81,854 |
| Between 91 and 180 days | 39,290 | 23,395 |
| Between 181 and 270 days | 389 | 380 |
| Between 271 and 360 days | 43 | 252 |
| Over one year | 1,891 | 1,504 |
| | 143,128 | 107,385 |

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 RMB16,963,000 as at 31 December 2015.

# CHAIRMAN'S STATEMENT

## GROUP RESULTS

The Group has recorded revenue of approximately RMB985,000,000 for the year ended 31 December 2015 (2014: RMB783,803,000), representing an increase of 25.7% as compared to 2014. Profit attributable to owners of the parent was approximately RMB302,198,000 (2014: RMB205,145,000), representing an increase of 47.3% over 2014. The increase in turnover was mainly attributable to the increase in sales of intermediates, bulk medicines and major products of system specific medicines, while the increase in profit was mainly attributable to the satisfactory sustained sales performance and gross profit margin of the Group's system specific medicines.

## FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK$0.12 per share for the year ended 31 December 2015, amounting to the total sum of approximately HK$96,289,000 (equivalent to approximately RMB80,648,000), to the shareholders whose names appeared in the register of members as of Friday, 27 May 2016 subject to the approval of the shareholders at the forthcoming 2016 Annual General Meeting (the "2016 AGM"). Taking into consideration the interim dividend of HK$0.03 per share, the total annual dividend distributed for the year is HK$0.15 per share. The dividend payout ratio is approximately 33.3%.

## OVERVIEW AND PROSPECT

In 2015, the global situation of economy was complicated and the recovery of the world economy was slow. Affected by economic reforms and transformation, 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 momentum has dwindled, resulting in a slower overall growth rate. Due to various medical and pharmaceutical policies and measures issued by the Government, chemical pharmaceutical firms were in the face of a more challenging operating environment. However, in consideration of the particularity of medical service, governmental resources and social capital are expected to continuously invest in the industry, therefore China's medical and healthcare industry is still enjoying a good prospect.

As to prospect of China's medical and pharmaceutical industry, the Group substantially kept 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 room for the development of the medical and pharmaceutical market, while the pharmaceutical sector will still maintain long-lasting and steady growth.

Currently, there is still a situation of fierce competition and high dispersion in the pharmaceutical sector of China. As to chemical pharmaceutical segment of the industry, the excessive production capacity and quality homogenization across brands with the general policy of quality improvement required by the Government, as well as continuous implementation of various policies and measures in relation to all aspects such as research and development, quality management, supply model, tendering system and social environment protection of pharmaceutical medicines, led to a challenged operating environment, and also resulted in the increase in the operating costs of the business. Accordingly, the Group considers the situation and continues to concentrate its resources to perform the following tasks in 2016 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 strategies and measures so as to increase penetration rate to all-tier markets in hope of a more extensive and consolidated market coverage and a more sound development momentum of the Group's system specific medicine sales.

2) As to cephalosporin antibiotics business, led by the Government's policy of restriction use of antibiotics, there was a narrower market space 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 enhance the market competitiveness of the Group's cephalosporin antibiotics products along the whole industry chain. Meanwhile, the Group puts more efforts to promote the research and development and marketing of cephalosporin antibiotics for oral use so as to improve the performance of such scope of business.

3) The Group recognizes that amid a macroscopic tendency featuring diminishing profitability in the chemical pharmaceutical industry, the Group needs to make all-out efforts to ensure keeping promotion drivers of all existing key types of medicine, and will also keep a close eye on disease tendencies among the public. The Group will adjust the structure and direction of research and development of products in respond to guidance requirements of research and development of products on pharmaceutical enterprises imposed by the Government, and on the basis of our financial resources and business development, meanwhile strengthen our research and development capability by all means and channels, in an effort to enrich the size of our new products of system specific medicines and cephalosporin antibiotics medicines in all treatment sectors.

The Group's management team will continue to practice its time-honoured pragmatic style of operation, aim at the long-term shareholder interest, make prudent decisions and focus on our core 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 period, under the pressure of intense market competition, the Group's system specific medicines still recorded sales growth while maintaining good business growth momentum compared to 2014. In particular, as to anti-hypertensive drug in "An" (安) series of medicines, the Group's marketing team concentrated various resources, adjusted marketing measures to a reasonable extent, optimized supply and sales system, and continued to consolidate brand awareness of "An" series, leading to a sustained sales growth of that series of medicines.

Meanwhile, sales of the Group's "Leiyide" (雷易得) (Entecavir Dispersible Tablets) for treating hepatitis B virus was in line with respective schedule and also recorded satisfactory growth with strong business growth. Following securing the supply contract in Hong Kong market in 2014, GlaxoSmithKline Limited, a partner of the Group and through its distribution business partner, has again successfully secured a new contract to supply the Group's Entecavir Tablets in Hong Kong market. This fully reflected that the quality of the Group's finished drugs had prerequisites of expansion into the advanced market in the world, which will have favourable impact on exploring the international market.

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. In 2015, sales volume of both intermediates and bulk medicines increased compared to 2014. However, upon completion of new GMP adaptive renovation works, the Group's manufacturing team required a longer period to integrate all parts, resulting in higher overall production costs of bulk medicines. As for cephalosporin powder for injection, since the "Administrative Measures for the Clinical Application of Antibacterial Drugs" (抗菌藥物臨床應用管理辦法) issued by China before several years, the antibacterial drugs market in China experienced a downward trend, while the overall consumption in the end-user market was further constrained due to stricter administrative measures for the clinical application of antibacterial drugs issued by the Government in 2015. As a result, during the period, the Group's sales volume of powder for injection decreased as compared to the corresponding period of last year.

## PRODUCTION AND SALES

For the year ended 31 December 2015, the Group's production and sales volume of bulk medicines increased by 102.4% and 63.1% respectively, compared to 2014; the production volume of cephalosporin powder for injection increased by 43.6% while the sales volume decreased by 22.2% over last year, where the decrease was attributable to the temporary loss of market in some regions. The production and sales volume of solid-dosage-forms increased by 26.8% and 8.1% respectively over last year. In particular, the production and sales volume of "An" (安) series increased by 34.1% and 8.8% respectively over last year, while the production and sales volume of "Leiyide" (雷易得)（Entecavir Dispersible Tablets）increased by 45.0% and 60.0% respectively over last year. Both series continued to grow this year. As for the international business, the Group kept expanding its overseas market, the share of overseas sales that accounted for 12.6% of total sales volume of the

Group and the sales amount increased by 36.0% over last year.

## NEW PRODUCTS AND PATENT LICENSING

1) In 2015, a total of 115 declarations for registration were filed with the Food and Drug Administration of Jiangsu Province (including 9 for supplemental applications and 106 for re-registration), and 2 were filed with the China Food and Drug Administration for new products within Class 3.1 (developed jointly with others); a total of 115 approval documents were obtained (including 9 supplemental approval documents or documents for record, 103 re-registration approval documents and 3 clinical approval documents).

2) Authorisation for one invention patent was obtained:
On 5 August 2015, “A cefixime tablet and its preparation process” was granted authorization with the authorization number of ZL201310026897.0.

## HONORS AWARDED IN 2015

| | |
|---|---|
| May 2015 | Su Zhou Dawnrays Pharmaceutical Science and Technology Co., Ltd. passed the renewal audit for the honor “Enterprises Valuing Contracts and Honoring Credit in Suzhou”. |
| May 2015 | Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. was awarded with the Certificate for Class 2 Enterprises in Work Safety Standardization” from Jiangsu Administration of Work Safety. |
| June 2015 | Suzhou Dawnrays Pharmaceutical Co., Ltd. was recognized as a “Foreign-invested Research and Development Center” jointly by the Department of Commerce of Jiangsu Province, the Department of Finance of Jiangsu Province, Nanjing Customs and Jiangsu State Administration of Taxation (JSAT). |
| October 2015 | Suzhou Dawnrays Pharmaceutical Co., Ltd. was credited as a provincial “Enterprise valuing contracts and honoring credit” for year 2013-2014 by the Industry and Commerce Administration of Jiangsu Province. |
| December 2015 | Cefixime tablet (司力捷) was approved as a “High-tech Product of Jiangsu Province” by the Science and Technology Department of Jiangsu Province. |

## QUALITY SYSTEM CERTIFICATIONS IN 2015

| | |
|---|---|
| May 2015 | Su Zhou Dawnrays Pharmaceutical Science and Technology Co., Ltd. passed the renewal audit on ISO9001:2008, ISO14001:2004 and OHSAS18001:2007. |
| July 2015 | Suzhou Dawnrays Pharmaceutical Co., Ltd. passed the site audit and obtained the Certificate for Measurement Assurance issued by the Metrology Association of Jiangsu Province. |
| August 2015 | Suzhou Dawnrays Pharmaceutical Co., Ltd.’s workshops for bulk medicines and solid dosage forms passed validation inspections and obtained the new GMP certificate. |

# FINANCIAL REVIEW

## SALES AND GROSS PROFIT

For the year ended 31 December 2015, the Group recorded a turnover of approximately RMB985,000,000, which was increased by RMB201,197,000, represented an increase of 25.7% compared with last year. In the turnover, sales of system specific medicines increased by RMB130,139,000, representing an increase of 24.7% compared with last year. Sales of the cephalosporin antibiotics product line increased by RMB71,874,000, representing an increase of 29.6% compared with last year.

Sales amount of finished drugs, comprising system specific medicines, powder for injection and tablets of cephalosporin and other oral solid-dosage-form of antibiotics, reached approximately RMB745,388,000. Taking into account of the total turnover, sales amount of finished drugs was approximately 75.7% which was decreased by 5.2 percentage points compared with last year. This was mainly due to the increase of the sales amount of intermediates and bulk medicines after completion of new GMP renovation. Sales amount of the "An" (安) series for treating hypertension accounted for 45.7% of sales of finished drugs. Sales amount of "Leiyide" (雷易得) for treating hepatitis B virus accounted for 35.8% of sales of finished drugs. Sales amount of "Xikewei" (西可韋) and "Xikexin" (西可新) for treating allergies accounted for 5.1% of sales of finished drugs.

Among the cephalosporin antibiotics product line, sales amount of intermediates and bulk medicines increased by 59.7% compared with last year. As for finished drugs, sales amount of cephalosporin powder for injection declined by 23.7% compared with last year while sales amount of cephalosporin for oral products was basically flat compared with last year. Under the impact of national restriction of usage of antibiotics, the overall end-user market of antibiotics was on a downward trend and therefore, sales of the powder for injection decreased compared with last year. However, sales of cephalosporin for oral products remained at similar level which was attributable to their more clinical convenience.

Gross profit was approximately RMB569,388,000 which was increased by RMB109,469,000 compared with last year, representing an increase of 23.8%. Gross profit margin decreased by 0.9 percentage points to 57.8% from 58.7% as in last year. In comparison with last year, although the sales amount of relatively high gross profit margin system specific medicines, such as "Leiyide" increased by 50.6% and sales amount of "An" (安) series increased by 12.5%, due to the sales amount of intermediates and bulk medicines enlarged after completion of the new GMP renovation, the turnover of finished drugs representing to total turnover decreased by 5.2 percentage points. The total gross profit margin level therefore was slightly lower than last year.

## TABLE OF TURNOVER ANALYSIS

| PRODUCT | TURNOVER | | | SALES BREAKDOWN | | |
|---|---|---|---|---|---|---|
| | (RMB'000) | (RMB'000) | (RMB'000) | (%) | (%) | Percentage points |
| | **2015** | 2014 | Changes | **2015** | 2014 | Changes |
| Intermediates and Bulk Medicines | **239,612** | 150,032 | 89,580 | **24.3** | 19.1 | 5.2 |
| Finished Drugs | **745,388** | 633,771 | 111,617 | **75.7** | 80.9 | -5.2 |
| Overall | **985,000** | 783,803 | 201,197 | **100.0** | 100.0 | 0.0 |

## EXPENSES

During the year, the total expenses incurred were approximately RMB223,680,000, equivalent to 22.7% of turnover (2014: 28.0%). The total expenses increased by approximately RMB3,926,000 compared with last year which was RMB219,754,000. Even though the turnover increased by 25.7%, the selling and distribution expenses decreased due to enhancement of control in selling expenses. The administrative expenses increased by RMB13,931,000 compared with last year, it was mainly due to the increase in total employee expenses for wage increase and for recruitment and providing incentives to employees by increasing bonus and granting share options.

## SEGMENT PROFIT

For the year ended 31 December 2015, the segment profit of finished drugs segment was approximately RMB498,280,000, which was increased by approximately RMB117,030,000 when compared with last year which was RMB381,250,000. The segment results of intermediates and bulk medicines segment recorded losses of approximately RMB37,862,000. The increase of loss by RMB7,093,000 compared with the loss of RMB30,769,000 in last year was due to re-integration of production technology and facilities after completion of renovation works of the cephalosporin bulk medicines workshop which led the rise of production cost. In addition, the market of cephalosporin antibiotics was less active and prices of bulk medicines were under pressure during the year, the Group had made high provision for inventory impairment and therefore, the loss of bulk medicine business had not been improved.

## PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

For the year ended 31 December 2015, profit attributable to owners of the parent amounted to approximately RMB302,198,000, achieved an increase of RMB97,053,000 or 47.3% growth compared with last year. Such substantial increase was mainly because the sales of system specific medicines still remained fast growth.

## ANALYSIS ON THE RETURN ON ASSETS

As at 31 December 2015, net assets attributable to owners of the parent were approximately RMB1,473,876,000. 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 20.5% (2014: 16.4%). The current ratio and quick ratio was 3.98 and 3.46 respectively. Turnover days for trade receivables were approximately 37 days. The turnover days for trade receivables including bills receivables were 88 days. Turnover days for inventory were approximately 102 days.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, the Group had cash and bank balance approximately RMB685,790,000 (as at 31 December 2014: RMB679,047,000). Of which cash and cash equivalents was approximately RMB563,280,000 (as at 31 December 2014: RMB443,366,000), RMB122,500,000 was term deposit with maturity over three months (as at 31 December 2014: Nil) and RMB10,000 (as at 31 December 2014: RMB50,000) was bank deposit pledged for letters of credit. During the year, the net cash flows from operating activities was approximately RMB298,322,000 (2014: RMB377,798,000). Net cash flows used in investing activities was approximately RMB146,200,000 (2014: RMB46,668,000). Net cash flows used in financing activities was approximately RMB37,984,000 (2014: RMB96,764,000).

As at 31 December 2015, the Group had aggregate bank facilities of approximately RMB763,035,000 (as at 31 December 2014: RMB844,790,000), of which, bank facilities of HK$18,000,000 were secured by corporate guarantee of the Company. For the short term loan, the Group had only a mortgage loan of HKD10,563,000 for its Hong Kong office. The loan interest rate is HIBOR plus 1.5%. As at 31 December 2015, the debt ratio (defined as sum of interest-bearing bank loans over total assets) of the Group was 0.5% (as at 31 December 2014: 11.1%).

As at 31 December 2015, the Group had the inventory balance of RMB147,747,000 (as at 31 December 2014: RMB87,581,000).

As at 31 December 2015, the Group's contracted but not provided for plant and machinery capital commitments amounted to approximately RMB7,776,000 (as at 31 December 2014: RMB5,901,000), which mainly derived from the sewage treatment works of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. The Group has sufficient financial and internal resources to bear the capital expenditure.

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 2015, part of the Group's bank fixed deposits was denominated in foreign currency and as the depreciation of Renminbi in the second half of 2015, the Group recorded approximately RMB2,951,000 exchange gain. However, 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. 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 2015, the Group employed approximately 998 employees and the total remuneration was approximately RMB118,611,000 (2014: RMB93,465,000). 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 2015, the Group's assets with net book value of approximately RMB29,821,000 were pledged to banks to secure credit facilities granted to its subsidiaries (as at 31 December 2014: RMB214,715,000).

## CONTINGENT LIABILITIES

As at 31 December 2015, 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 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 3,852,000 shares of the Company's listed securities on the Stock Exchange at an aggregate consideration of HKD19,650,840 before expenses. The repurchases were effected by the Directors for the enhancement of shareholder value in the long term. The repurchased shares were subsequently cancelled. 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 2015 | 3,116,000 | 5.40 | 4.86 | 16,061,920 |
| February 2015 | 736,000 | 4.97 | 4.76 | 3,588,920 |
| Total | 3,852,000 | | | 19,650,840 |

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 2015.

## CORPORATE GOVERNANCE CODE

In the opinion 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 2015, 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.

   The positions of Chairman of the Board and CEO of the Company have been carried on by the same person since 1 March 2015. The Board considers that this structure does not undermine the balance of power and authority between the Board and the management. The Board members have considerable experience and qualities which they bring to the Company and the Board believes that it is able to ensure that the balance of power between the Board and the management is not impaired. The Board believes that having the same person performing the roles of both Chairman and CEO does provide the Group with strong and consistent leadership and that, operating in this manner allows for more effective and efficient overall strategic planning of the Group.

2. Code Provision A.6.7 of the CG Code -Attendance of Non-executive Directors at general meeting.

   All Non-executive Directors (including Independent Non-executive Directors) attended the annual general meeting of the Company held on 22 May 2015 (the "2015 AGM") other than one Independent Non-executive Director who was not in position to attend the 2015 AGM due to an overseas commitment. A new Non-executive Director was appointed after 2015 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 2015 annual report.

## AUDIT COMMITTEE

The audited financial statements of the Company for the year ended 31 December 2015 have been reviewed by the Audit Committee before recommending them to the Board for approval.

## DIVIDEND AND CLOSURE OF REGISTER

The Board has resolved to recommend the payment of a final dividend of HK$0.12 per share payable to shareholders whose names appear in the Register of Members of the Company on Friday, 27 May 2016. The proposed final dividend of HK$0.12 per share, the payment of which is subject to approval of the shareholders at the 2016 AGM of the Company to be held on Friday, 20 May 2016, is to be payable on Tuesday, 7 June 2016 to shareholders.

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

(i) from Wednesday, 18 May 2016 to Friday, 20 May 2016, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2016 AGM. In order to be eligible to attend and vote at the 2016 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 Tuesday, 17 May 2016 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, 26 May 2016 to Friday, 27 May 2016, 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, 25 May 2016 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, 17 March 2016

*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.*