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DAWNRAYS PHARMACEUTICAL (HOLDINGS) LIMITED

東瑞製藥（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2348)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2010	2009	Change
Unaudited	RMB'000	<i>RMB'000</i>	%
Revenue	626,357	495,550	26.4
Gross Profit	199,736	142,541	40.1
Profit before tax	107,786	66,195	62.8
Profit for the period attributable to equity holders of the parent	87,500	51,117	71.2
Earnings per share-basic (RMB)	0.1106	0.0656	68.6
Interim dividend per share (HK\$)	0.020	0.018	11.1

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

The board of directors (the 'Board') of Dawnrays Pharmaceutical (Holdings) Limited (the 'Company') is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the 'Group') for the six months ended 30 June 2010 (the "period"). These interim results have been reviewed by the audit committee of the Company.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.02 per share for the year ending 31 December 2010, approximately amounting to a total sum of HK\$15,869,000 (approximately equivalent to RMB13,877,000).

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB'000	<i>RMB'000</i>
REVENUE	3	626,357	495,550
Cost of sales		<u>(426,621)</u>	<u>(353,009)</u>
Gross profit		199,736	142,541
Other income and gain	3	5,545	1,034
Selling and distribution costs		(52,805)	(44,666)
Administrative expenses		(24,789)	(23,023)
Other expenses		(19,771)	(9,399)
Finance costs	4	<u>(130)</u>	<u>(292)</u>
PROFIT BEFORE TAX	5	107,786	66,195
Income tax	6	<u>(20,288)</u>	<u>(15,118)</u>
PROFIT FOR THE PERIOD		<u>87,498</u>	<u>51,077</u>
Attributable to:			
Equity holders of the parent		87,500	51,117
Non-controlling interests		<u>(2)</u>	<u>(40)</u>
		<u>87,498</u>	<u>51,077</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
– basic, for profit for the period		RMB0.1106	RMB0.0656
– diluted, for profit for the period		<u>RMB0.1098</u>	<u>RMB0.0654</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	<i>RMB'000</i>
PROFIT FOR THE PERIOD	<u>87,498</u>	<u>51,077</u>
Currency translation difference	<u>27</u>	<u>(55)</u>
OTHER COMPREHENSIVE GAIN/(LOSS) FOR THE PERIOD, NET OF TAX	<u>27</u>	<u>(55)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>87,525</u>	<u>51,022</u>
Attributable to:		
Equity holders of the parent	87,527	51,062
Non-controlling interests	<u>(2)</u>	<u>(40)</u>
	<u>87,525</u>	<u>51,022</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		252,545	250,186
Land use rights		46,942	47,462
Construction in progress		94,536	85,699
Intangible assets		15,604	15,685
Deferred tax assets		<u>2,532</u>	<u>1,206</u>
Total non-current assets		<u>412,159</u>	<u>400,238</u>
CURRENT ASSETS			
Inventories	9	201,963	184,346
Trade and notes receivables	10	418,770	435,308
Prepayments, deposits and other receivables		19,869	14,309
Financial assets at fair value through profit or loss		5,592	5,814
Restricted bank deposits		35,200	-
Cash and cash equivalents		<u>158,091</u>	<u>86,450</u>
Total current assets		<u>839,485</u>	<u>726,227</u>
CURRENT LIABILITIES			
Trade and notes payables	11	394,446	350,455
Other payables and accruals		33,119	40,814
Bank advances for discounted bills		-	5,000
Interest-bearing bank loan, current portion		36,640	1,761
Derivative financial instrument		33	-
Income tax payable		<u>6,100</u>	<u>5,951</u>
Total current liabilities		<u>470,338</u>	<u>403,981</u>
Net current assets		<u>369,147</u>	<u>322,246</u>
Total assets less current liabilities		<u>781,306</u>	<u>722,484</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank loan		2,617	3,522
Government grants		-	1,120
Deferred tax liability		<u>10,176</u>	<u>5,998</u>
Total non-current liabilities		<u>12,793</u>	<u>10,640</u>
Net assets		<u><u>768,513</u></u>	<u><u>711,844</u></u>

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
	<i>Notes</i>	
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	84,251	83,649
Reserves	683,709	592,871
Proposed final dividend	-	34,769
	<u>767,960</u>	<u>711,289</u>
Non-controlling interests	<u>553</u>	<u>555</u>
Total equity	<u><u>768,513</u></u>	<u><u>711,844</u></u>

NOTES:

1. BASIS OF PREPARATION AND IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Basis of preparation

The unaudited interim condensed consolidated financial statements for the six-month period ended 30 June 2010 (collectively defined as the “interim financial information”) have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (the “IASB”) and applicable disclosure provisions of Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value.

The preparation of the interim financial information in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial information does not include all the information and disclosures required in the financial statements, and should be read in conjunction with the Group’s audited financial statements for the year ended 31 December 2009.

Impact of new and revised International Financial Reporting Standards

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

(a) New and amended International Financial Reporting Standards (“IFRSs”) adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- IFRS 3 (Revised), “Business combinations”, and consequential amendments to IAS 27, “Consolidated and separate financial statements”, IAS 28, “Investments in associates”, and IAS 31, “Interests in joint ventures”, are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

- The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.
 - As the Group has adopted IFRS 3 (Revised), it is required to adopt IAS 27 (Revised), "Consolidated and Separate Financial Statements", at the same time. IAS 27 (Revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in profit or loss.
- (b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group
- IFRIC 17, "Distributions of Non-cash Assets to Owners" is effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.
 - "Additional Exemptions for First-time Adopters" (Amendment to IFRS 1) is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing IFRS preparer.
 - IAS 39 (Amendment), "Eligible Hedged Items" is effective for annual period on or after 1 July 2009. That is not currently applicable to the Group, as it has no hedging.
 - IFRS 2 (Amendment), "Group Cash-settled Share-based Payment Transaction" is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it has no such share-based payment transactions.
 - First improvements to International Financial Reporting Standards (2008) were issued in May 2008 by the IASB. The improvement related to IFRS 5 "Non-current Assets Held For Sale and Discontinued Operations" is effective for annual period on or after 1 July 2009.
 - Second improvements to International Financial Reporting Standards (2009) were issued in April 2009 by the IASB. All improvements are effective in the financial year of 2010.

2. SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and services. There is one reportable operating segment: the manufacture and sale of pharmaceutical products. Management monitors the operating results of its business units as a whole for the purpose of making decisions about resources allocation and performance assessment.

3. REVENUE, OTHER INCOME AND GAIN

Revenue, which is also the Group's turnover, 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 gain is as follows:

	For the six months ended 30 June	
	2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Revenue		
Sale of goods	<u>626,357</u>	<u>495,550</u>
Other income		
Bank interest income	468	170
Dividend income from financial assets at fair value through profit or loss	103	39
Government grants	3,749	341
Others	<u>1,225</u>	<u>384</u>
	<u>5,545</u>	<u>934</u>
Gain		
Gain on disposal of financial assets at fair value through profit or loss	<u>-</u>	<u>100</u>
	<u>5,545</u>	<u>1,034</u>

4. FINANCE COSTS

	For the six months ended 30 June	
	2010 (Unaudited) RMB'000	2009 (Unaudited) RMB'000
Interest on bank advances for discounted bills	-	292
Interest on bank loan	<u>130</u>	<u>-</u>
	<u>130</u>	<u>292</u>

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	<i>RMB'000</i>
Cost of the inventories sold	426,621	353,009
Depreciation	12,284	12,478
Recognition of land use rights *	521	1,173
Research and development costs:		
Amortisation of intangible assets **	459	429
Current period expenditure	9,888	8,048
	10,347	8,477
Minimum lease payments under operating leases:		
Buildings	753	868
Employee benefit expense (including directors' remuneration) :		
Wages and salaries	33,276	30,984
Retirement costs	3,412	3,171
Accommodation benefits	1,316	1,254
Other benefits	5,174	4,876
Equity-settled share option expense	133	241
	43,311	40,526
Foreign exchange differences, net***	169	17
Write-down of inventories to net realisable value	8,220	1,027
Fair value losses /(gains), net:		
Financial assets at fair value through profit or loss	557	(1,263)
Loss on disposal of items of property, plant and equipment	244	371

* The recognition of land use rights for the period is included in "Administrative expenses" on the face of the condensed consolidated income statement.

** The amortisation of intangible assets for the period is included in "Other expenses" on the face of the condensed consolidated income statement.

*** The foreign exchange differences, net for the period is included in "Other expenses" on the face of the condensed consolidated income statement.

6. INCOME TAX

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current income tax		
Current income tax charge	18,722	14,708
Adjustments in respect of current income tax of previous years	(1,497)	231
Deferred income tax	<u>3,063</u>	<u>179</u>
Total tax charge for the period	<u><u>20,288</u></u>	<u><u>15,118</u></u>

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period. Taxation for the subsidiaries in Mainland China is calculated on the estimated assessable profits for the period at the rates of tax prevailing in the locations in which the Group's subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

7. DIVIDENDS

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Dividend pertaining to the prior year declared in the six months ended 30 June	34,851	27,494
Interim – HK\$0.020(2009: HK\$0.018) per ordinary share	<u><u>13,877</u></u>	<u><u>12,447</u></u>

On 27 August 2010, the Company declared an interim dividend for the year ending 31 December 2010, at HK\$0.02 per share, amounting to a total sum of approximately HK\$15,869,000 (approximately equivalent to RMB13,877,000).

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2010 is based on the profit for the period attributable to ordinary equity holders of the parent of RMB87,500,000 (2009: RMB51,117,000) and the weighted average number of 790,896,243 ordinary shares (2009: 779,503,713 ordinary shares) in issue during the period.

The calculation of diluted earnings per share for the period is based on the profit for the period attributable to ordinary equity holders of the parent of RMB87,500,000 (2009: RMB51,117,000) and the weighted average number of 796,676,488 ordinary shares (2009: 781,838,235 ordinary shares) in issue during the period after adjusting for the effect of dilutive options.

9. INVENTORIES

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Raw materials (at cost)	44,882	28,197
Work in progress (at cost or net realizable value)	102,743	113,836
Finished goods (at cost or net realizable value)	54,338	42,313
	<u>201,963</u>	<u>184,346</u>

10. TRADE AND NOTES RECEIVABLES

An aged analysis of the trade and notes receivables as at 30 June 2010, based on the invoice date, is as follows:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Trade receivables		
Outstanding balances with ages:		
Within 90 days	156,167	153,947
Between 91 and 180 days	12,491	5,044
Between 181 and 270 days	880	3
Between 271 and 360 days	-	-
Over one year	-	10
	<u>169,538</u>	<u>159,004</u>
Notes receivables		
Outstanding balances with ages:		
Within 90 days	28,041	116,730
Between 91 and 180 days	221,191	159,574
	<u>249,232</u>	<u>276,304</u>
	<u>418,770</u>	<u>435,308</u>

The Group's trading terms with its customers are mainly on credit. Invoices are normally payable within one month of issue, except for major customers, where the terms are extended to three months.

11. TRADE AND NOTES PAYABLES

An aged analysis of the trade and notes payables as at 30 June 2010, based on the invoice date, is as follows:

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Trade payables		
Outstanding balances with ages:		
Within 90 days	106,842	85,251
Between 91 and 180 days	3,002	876
Between 181 and 270 days	156	165
Between 271 and 360 days	103	153
Over one year	<u>952</u>	<u>1,015</u>
	<u>111,055</u>	<u>87,460</u>
Notes payables		
Outstanding balances with ages:		
Within 90 days	127,993	125,505
Between 91 and 180 days	<u>155,398</u>	<u>137,490</u>
	<u>283,391</u>	<u>262,995</u>
	<u>394,446</u>	<u>350,455</u>

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.

CHAIRMAN'S STATEMENT

During the first half of 2010, the economy of developed countries showed some gradual financial improvement, but the future financial prospect for these countries is still very uncertain. The recovery from the global financial crisis is driven by the strong economic growth of Asia, especially China. The Central Government of China has been enhancing the medical care system, social security coverage, and transportation infrastructure development in order to encourage domestic consumption in general and to speed up the economic development of Western and Central regions in particular. Thus, currently, the influence generated by China's economic growth on the global economic system as a whole is much more important than any other period in the country's history.

Most industries in China have shown growth in earnings in the first half of 2010. 37 out of 39 main industries have generated more industry-level profit in the first half of 2010 than they did in the first half of 2009. Furthermore, there are 14 industries in which the industry-level profit of the first half of 2010 increased over 50% compared with the earnings of the first half of 2009. Among these 14 industries, 10 of which recorded an increase of over 100% in its industry-level profit of the first half of 2010 when compared with the first half of 2009. Aggregately, the regional middle-sized and large-sized firms in most provinces of China generated RMB 1,611.1 billion during the first half of 2010, which is a 72% increase compared with the aggregated profit for these firms during the first half of 2009, according to the information from the Ministry of Industry and Information Technology of the People's Republic of China.

Specifically, from January to May of 2010, the pharmaceutical industry in China aggregately generated profit of RMB 47 billion, which is a 37% increase compared with the aggregated profit during the first half of 2009, according to the information from the Ministry of Industry and Information Technology of the People's Republic of China.

Granted, the power generated by the strong economic growth of emerging markets is not the only driver of global economic development for the coming 10 years. However, the power of emerging markets may be demonstrated as the most influential force in the rebalancing of the global economy. The forthcoming 10 years could be the historical turning point in which the global economy may achieve structural rebalance. We believe that this structural rebalance will help emerging markets, as new economic systems, to achieve the largest percentage in the global GDP than they have ever realized since the first industrial revolution.

We predict that the economic systems of emerging markets will transform from playing insignificant roles (i.e., as in the setting where economic growth largely depends on the macro-performance of developed economies) to becoming sustainable economic forces by themselves. From low-cost products and service providers (e.g., OEM plants) to knowledge-intensive, technology-intensive and capital-intensive enterprises, emerging markets will undergo a historical transformation. It is logical to assume that more innovation-intensive and capital-intensive firms will be formed in emerging markets, including China. Therefore, this global economic rebalancing will force pharmaceutical firms, including but not limited to multinational enterprises, to revise their strategic priorities. Multinational enterprises will no longer have the privilege of treating China as a second-tier market. China is becoming the center of pharmaceutical consumption, manufacturing, clinical trials, and innovation. The global leadership of pharmaceutical multinational enterprises will increasingly depend on their success in the emerging markets because these countries will be the basis of future growth.

As we indicated in our 2009 interim report, the Group must insist on managing a conservative investment principle and transparent corporate governance mechanism. We always consider product quality as the first priority, thus creating value for all the stakeholders including hospitals, doctors and patients. We also take our responsibilities seriously and carefully to manage the environmental impact of our pharmaceutical plants. We do not only create financial prosperity for all our shareholders but also deliver societal and economic values to all the stakeholders and local governments.

As part of our strategic development, the principle and the capability of the Group must adapt to and even predict the likelihood of changes in technology, the trends of the healthcare market and the adjustments in governmental policies. Changes have happened quite frequently during recent years. In fact, starting in the second half of 2009, the pharmaceutical industry in China as a whole has been benefited from the healthcare policies formulated by the Central Government. All the products listed in the “National Essential Drug List,” including bulk medicines, chemical finished preparation and even traditional Chinese medicine, showed a strong increase in sales, a trend that continued as of May 2010.

As we pointed out in the 2009 interim report, the implementation of the essential drug system and the launch of the supporting policies of the medical reform by the State fundamentally changed the distribution channels of the pharmaceutical market in China. Even though the change was designed to be incremental, the effects are very substantial and irreversible. Patients who live in rural regions and small towns as well as those in low-level income groups in cities would benefit from the national medical reform. Clearly, this medical reform highlights the fact that all Chinese will be benefit from the medical care system via small-sized district clinics in cities and rural locations.

Therefore, based on the business relationships between the Group and its stakeholders, we have incrementally established the strategic development and investment infrastructure of the Group in order to develop core principles and firm-level capabilities. First of all, for the antibiotic bulk medicine business, we continue to treat quality as the first priority when we make raw material procurement decisions. The vertical integrated process enables us to internally control all the steps of chemical manufacturing, not only in terms of the cost but also in terms of the quality. This manufacturing arrangement illustrates the outstanding quality management philosophy of our Group and also provides a concrete explanation for the high growth of our bulk medicine business. Second, for the system-specific medicine business, as a generic drug manufacturer, the competitive advantage is derived by quick production, process innovation and effective market penetration. A deep understanding of China's pharmaceutical market and product positioning capability enable the relatively high margin for the system-specific medicine business. Third, based upon the capital market in Hong Kong, our Group incrementally establishes strategic development and business development infrastructures. Because the pharmaceutical market in China is highly likely to be a super-competitive market for high-end generic products, we actively seek and develop strategic partnerships with technology-intensive firms, especially the ones located overseas. We aim to strengthen the positive synergy between the capital market in Hong Kong and the product marketplace in China.

For the second half of 2010, within the system-specific medicine business, the Group plans to effectively enhance the market share for cardiovascular drugs. The Group will increase the promotion coverage for the product "An Nei Xi" in order to generate a stronger impact. Within the powder for injection business, we will integrate the distribution channels and penetrate the value chain of large-sized distributors. Regarding bulk medicine business, it is anticipated that in the second half of 2010, the price may fluctuate severely. We will act with prudence to revise our sales policy timely and exert our effort to maintain the market share.

PROSPECTS

As the driver of the economic growth switches from developed economies to emerging markets, firms should focus on innovation in order to achieve success in low-cost and high-growth countries. The pharmaceutical market in China is no longer in the game of low-cost competition. Technological innovation will quickly become the new competitive landscape.

Today, the stronger economic power of China, especially the initialized medical care system that is designed to cover 1.3 billion citizens, will develop and upgrade the entire pharmaceutical industry and many of its firms. The high-end generic drug business will become a hyper-competitive business for all players. "The Eleventh Five-Year Plan for National Economic and Social Development of the People's

Republic of China” emphasizes technology innovation and focuses on structural adjustments in order to guide the growth of the healthcare economy in China. We have good reasons to believe that the National Development and Reform Commission (NDRC) formulated such a plan in order to enhance the global competitiveness of domestic firms by strengthening the sustainability of the pharmaceutical sector. Hence, there are three points worth mentioning: (1) the Group will enhance the innovation capability and develop a few world-class professional research and development projects and an internationally accredited Good Manufacturing Practice (“GMP”) standard; (2) the Group will strengthen international communications with firms and domestic participations with industrial associations, and hopefully the outcome will be an information platform of new products; and (3) within the business environment of the national medical reform, the Group will optimize the product portfolio and marketing penetration strategies in each region of China.

BUSINESS REVIEW

1) PRODUCTION & SALES OPERATION

For the six months ended 30 June 2010, the production and sales volume of bulk medicines of the Group increased by 24.3% and 33.5% respectively as compared to the corresponding period of 2009. The production and sales volume of powder for injections decreased by 14.8% and 15.8% respectively as compared to the corresponding period of last year. The production and sales volume of system specific medicines in solid-dosage-forms increased by 19.3% and 26.7% respectively as compared to the corresponding period of last year. The Group continues to prompt export sales. Currently marketing authorisation of 29 products have been successfully approved and registered in 5 countries including Russia, India and also in Hong Kong.

2) DEVELOPMENT OF NEW PRODUCTS

In the first half of 2010, the Group applied to the State and/or Provincial Food and Drug Administration to register a total 15 products for 17 registrations. Accordingly, the Group received 1 production permit, 10 supplemental production permits and 1 clinical permit. There are on-going clinical trials for 4 products and another 2 products have completed clinical trials.

3) HONOURABLE RECOGNITION DURING FIRST HALF OF 2010

In the first half of 2010, two products, namely cefoperazone sodium for injection and its bulk medicine and cefoperazone sodium and sulbactam sodium for injection and its bulk medicine have been recognized as the new technology products of Jiangsu Province by Jiangsu Province Sci-tech Department.

4) CONSTRUCTION PROJECTS FOR THE EXPANSION OF PRODUCTION FACILITIES

- In respect of Phase I of the project in Hedong Industrial Park of Suzhou Dawnrays Pharmaceutical Co., Ltd., civil works of a non-cephalosporin bulk medicine workshop were completed. The design for the utility works for this project was also completed and the design works for the non-cephalosporin solid-dosage-forms workshop has commenced.
- In respect of the Phase II project of the Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd., the equipment installation works of the non-cephalosporin intermediates has commenced.
- The construction for the workshop for oral cephalosporin intermediates in Suzhou Dawnrays Chemical Co., Ltd. has entered the environmental impact assessment stage.

5) ENVIRONMENTAL PROTECTION MEASURES

The Group do emphasize on technological innovation and environmental friendly production. We work to enhance the environmental protection capability and improve the pollution control facilities.

6) VOLUNTARY WINDING-UP OF SHANGHAI DAWNRAYS CHEMICAL CO., LTD.

Further to the disclosure in 2009 Annual Report, in February 2010, the Shanghai Jiading District People's Government officially approved the resolution to voluntary liquidate and dissolve Shanghai Dawnrays Chemical Co., Ltd. and its deregistration for customs and taxation issues were completed in the middle of August 2010.

As Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. commenced production in 2009, the winding-up of Shanghai Dawnrays Chemical Co., Ltd. will not jeopardize the productivity and operation of the Group.

FINANCIAL REVIEW

SALES AND GROSS PROFIT

For the six months ended 30 June 2010, the Group has recorded the turnover of approximately RMB626,357,000, equivalent to an increase of 26.4% compared with the corresponding period of last year. The growth was mainly due to two main reasons. First, the production capacity of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd. was incrementally utilized in order to support the bulk medicine business. The sales volume of bulk medicines increased by 33.5% compared with the corresponding period of last year. Second, there was an increase in the sales volume for the solid-dosage-form medicines (most are system specific medicines) by 26.7%.

Gross profit was approximately RMB199,736,000, equivalent to an increase of 40.1% compared with the corresponding period of last year. The gross profit margin was increased from 28.8% to 31.9% as compared with the corresponding period of last year. The main reasons for the increase in gross profit margin were the increase in average sales price of bulk medicines as compared with corresponding period of last year, along with the Group's effort to optimize the product portfolio. The sales of solid-dosage-form (most are system specific medicines) accounted for a total turnover increased from 15.5% to 17.3% as compared with corresponding period of last year and the sales of relatively higher gross profit margin products in the powder for injections were increased.

Table of Turnover Analysis

Product	Turnover (RMB '000)			Sales Breakdown (%)		
	2010	2009	Changes	2010	2009	Changes
Bulk Medicines	393,399	284,913	108,486	62.81	57.49	5.32
Powder for Injections	124,416	133,973	-9,557	19.86	27.04	-7.18
Solid-Dosage-Forms	108,542	76,664	31,878	17.33	15.47	1.86
Overall	626,357	495,550	130,807	100.00	100.00	0.00

EXPENSES

During the period, the total expenses incurred were approximately RMB97,495,000, equivalent to a rise of 26.0% compared with the corresponding period of last year. The total expenses as a percentage of turnover was 15.6% (2009: 15.6%).

PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

For the period ended 30 June 2010, profit attributable to equity holders of the parent amounted to approximately RMB87,500,000, posted a rise of 71.2% compared with the corresponding period of last year. The reasons for such a substantial increase in profit was mainly due to the utilization of the production capacity of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd and the optimization of our Group's product portfolio, especially for the system specific medicine business.

ANALYSIS ON THE RETURN ON ASSETS

As at 30 June 2010, net assets attributable to equity holders of the parent were approximately RMB767,960,000. Net return on net assets, which is defined as the profit attributable to equity holders of the parent divided by net assets attributable to equity holders of the parent, was 11.4% (2009: 7.8%). The current ratio and quick ratio were 1.78 and 1.36 respectively. Turnover days for trade and notes receivables were approximately 123 days. Turnover days for inventory were approximately 82 days.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the Group held cash and cash equivalents of approximately RMB158,091,000 (as at 31 December 2009: RMB86,450,000). During the period, the net cash flows from operating activities was approximately RMB132,169,000 (2009: RMB64,780,000). Net cash flows used in investing activities was approximately RMB63,354,000 (2009: RMB20,273,000). Net cash flows from financing activities was approximately RMB2,749,000 (2009: RMB-25,751,000).

As at 30 June 2010, the Group has HKD45,000,000 (as at 31 December 2009: HKD6,000,000) floating rate interest-bearing bank loans, of which HKD42,000,000 were repayable within a year with the remaining balance repayable with a period of two to three years. As at 30 June 2010, the debt ratio (defined as interest-bearing bank loan over total assets) of the Group was 3.1% (as at 31 December 2009: 0.9%).

As at 30 June 2010, the Group's bank loans are guaranteed by corporate guarantee of the Company and some of its subsidiaries. Besides, a subsidiary of the Group undertook to maintain fixed deposits of not less than RMB35,200,000 at the bank's wholly-owned subsidiary located in Shanghai, China throughout the loan period of HKD40,000,000 bank loans. The fixed deposit carries interest at market rate. Concurrent with the loans, the Group entered into an interest rate swap contract with a notional amount of HKD40,000,000 with the bank. The intended effect of which is to enable the Group to convert its interest rate exposure under its floating rate bank loans to a fixed annual interest rate.

As at 30 June 2010, the Group had aggregate bank facilities of approximately RMB 770,000,000 (as at 31 December 2009: RMB700,568,000).

As at 30 June 2010, the Group's capital commitments amounted to approximately RMB311,836,000 (as at 31 December 2009: RMB154,410,000), which mainly derived for the construction of new workshops for non-cephalosporin bulk medicines and solid-dosage-forms preparation of Suzhou Dawnrays Pharmaceutical Co. Ltd., the construction works for the cardiovascular chemical intermediates workshop of Dawnrays (Nantong) Pharmaceutical Science and Technology Co., Ltd., and the construction works for oral cephalosporin intermediates workshop in Suzhou Dawnrays Chemical Co., Ltd. The Group has sufficient financial and internal resources to bear the capital expenditure.

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

CHARGES ON ASSETS

As at 30 June 2010, the Group had no asset being pledged to banks to obtain credit facilities (as at 31 December 2009: Nil).

FOREIGN EXCHANGE AND TREASURY POLICIES

As 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 30 June 2010, the Group employed approximately 1,674 employees and the total remuneration was approximately RMB43,311,000 (2009: RMB40,526,000). The Group believes human resources are the most valuable assets and truly understands the importance of attracting and retaining high-performance employees. The remuneration policy is generally based on the references of market salary index and individual qualifications. The Group provides its employees with other fringe benefits, including defined contribution retirement schemes, share option scheme and medical coverage. The Group also offers some of its employees stationed in the PRC with dormitory accommodation.

CONTINGENT LIABILITIES

As at 30 June 2010, the Group had no material contingent liabilities (as at 31 December 2009: Nil).

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

For the six months ended 30 June 2010, neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

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 Rules Governing the Listing of Securities on the Stock Exchange (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 the Company's Directors, the Directors have complied with the required standard set out in the Model Code, throughout the six months period ended 30 June 2010.

AUDIT COMMITTEE

For the six months ended 30 June 2010, the Company had an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. For reasons stated in section headed "Non-compliance with Rule 3.10(1) and Rule 3.21" below, the audit committee comprises of two independent non-executive directors of the Company as at the date of this announcement. Mr. Choi Tat Ying, Jacky, an Independent Non-executive Director who has appropriate professional qualifications and accounting and related financial management expertise as required under Rule 3.10(2) of the Listing Rules, was appointed as the chairman of Audit Committee on 9 July 2010.

The unaudited interim condensed consolidated financial statements of the Company for the six months ended 30 June 2010 have been reviewed by the audit committee before recommending it to the Board for approval.

REMUNERATION COMMITTEE

The current members of the remuneration committee of the Company comprise of Ms. Li Kei Ling, Mr. Pan Xue Tian and Mr. Choi Tat Ying Jacky, with Ms. Li Kei Ling acting as the chairman of the remuneration committee.

The Remuneration Committee's terms of reference are summarized as follows:-

- i) to ensure that no Director or any of her/his associates is involved in deciding her/his own remuneration; and
- ii) to make recommendations with respect to the remuneration of the Directors and the senior management of the Company for approval by the Board.

NOMINATION COMMITTEE

The current members of the nomination committee of the Company comprise of Ms. Li Kei Ling, Mr. Pan Xue Tian and Mr. Choi Tat Ying Jacky, with Ms. Li Kei Ling acting as the chairman of the nomination committee.

The Nomination Committee's terms of reference are summarized as follows:

- i) to review the structure, size and composition (including the skills, knowledge and experiences) of the Board on a regular basis and to make recommendation to the Board regarding any proposed changes;
- ii) to identify suitable individual qualified to become Board members; and
- iii) to make recommendation to the Board on relevant matters relating to the appointment or reappointment of Directors if necessary, in particular, candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result on the constitution of a strong and diverse Board.

CODE ON CORPORATE GOVERNANCE PRACTICES

To the best knowledge, information and belief of the Directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months period ended 30 June 2010. Non-compliance with the Code by the Company after 30 June 2010 as a result of the resignation of Mr. Sik Siu Kwan is disclosed in sections headed "Audit Committee" and "Non-compliance with Rule 3.10(1) and Rule 3.21" below.

NON-COMPLIANCE WITH RULE 3.10(1) AND RULE 3.21

With effect from 9 July 2010, Mr. Sik Siu Kwan resigned as an Independent Non-executive Director, chairman of the Audit Committee, member of the Remuneration Committee and Nomination Committee. Subsequent to the resignation of Mr. Sik Siu Kwan, the Board comprises of seven Directors, of which four are Executive Directors, one is Non-executive Director and two are Independent Non-executive Directors and the audit committee of the Company comprises of Mr. Pan Xue Tian and Mr. Choi Tat Ying Jacky. Therefore, the total number of the Independent Non-executive Directors and member of Audit Committee of the Company have fallen below the minimum number as required under Rule 3.10(1) and 3.21 of the Listing Rules. The Company will endeavour to identify a suitable candidate to fill such vacancy to meet the requirements of Rules 3.10(1) and 3.21 of the Listing Rules within the time allowed under Rule 3.11 of the Listing Rules.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 13 September 2010 to Tuesday, 14 September 2010 (both days inclusive) for the purposes of ascertaining entitlements to the Company's interim dividend, during which period no transfer of shares will be registered.

Dividend warrants will be despatched to shareholders on or about Tuesday, 21 September 2010. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrars in Hong Kong, Tricor Abacus Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 10 September 2010.

The Board would like to take this opportunity to express appreciation and gratitude to its shareholders for their support and to our dedicated colleagues for their contributions and outstanding service.

By Order of the Board

Li Kei Ling

Chairman

Hong Kong, 27 August 2010

As at the date of this announcement, the Board comprises seven Directors, of which four are Executive Directors, namely Ms. Li Kei Ling, Mr. Hung Yung Lai, Mr. Li Tung Ming and Mr. Gao Yi; one is Non-executive Director, Mr. Leung Hong Man; two are Independent Non-executive Directors, namely Mr. Pan Xue Tian and Mr. Choi Tat Ying Jacky.