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Corporate Information

EXECUTIVE DIRECTORS

LI Kei Ling
HUNG Yung Lai
ZHANG Jing Xing
LAM Kam Wah
LI Tung Ming
XU Kehan (appointment with effect from 17 March 2004)

INDEPENDENT NON-EXECUTIVE DIRECTORS

PAN Xue Tian
LEE Cheuk Yin Dannis

COMPANY SECRETARY

LUK Wai Mei, CPA (Aust), AHKSA

AUTHORISED REPRESENTATIVES

LI Kei Ling
LAM Kam Wah

AUDIT COMMITTEE

LEE Cheuk Yin Dannis (*Chairman*)
PAN Xue Tian

AUDITORS

Ernst & Young
Certified Public Accountants, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Standard Chartered Bank Hong Kong Landmark Branch
Industrial and Commercial Bank of China
Wuzhong Sub-Branch
Agricultural Bank of China Suzhou Branch

SHAREHOLDER'S CALENDAR

Closure of Register of Members
Annual General Meeting
Interim Dividend, paid
Final Dividend, payable

Monday, 26 April 2004 to Thursday, 29 April 2004 (both dates inclusive)
Thursday, 29 April 2004
HK\$0.015 per share, paid on 30 October 2003
HK\$0.035 per share, payable on or about 14 May 2004.

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suites 3212-13 Shell Tower, Times Square
1 Matheson Street
Causeway Bay
Hong Kong

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P. O. Box 2681 GT
George Town, Grand Cayman
British West Indies

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
36C Bermuda House
British American Centre, Dr. Roy's Drive
George Town, Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Abacus Share Registrars Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

2348

Chairman's Statement

DEAR SHAREHOLDERS,

On behalf of the Board of directors of Dawnrays Pharmaceutical (Holdings) Limited (the "Company") and its subsidiaries (together referred to as the "Group"), I would like to present herewith the first Annual Report of the Group since its listing on the Main Board of The Stock Exchange of Hong Kong Limited on 11 July 2003.

RESULTS

The Group recorded a turnover of approximately RMB491,388,000 and profits attributable to shareholders of approximately RMB108,022,000 for the year ended 31 December 2003, representing an increase of approximately 50% and approximately 8% over 2002 respectively. Growth in turnover and profits were mainly attributable to the significant increase in the production and sales volume of cephalosporin antibiotics series in powder for injection form and bulk medicine, the rapid penetration in the market of the new products of system specific medicines (with average gross profit of approximately 78%) as planned, as well as the effective control on manufacturing costs.

FINAL DIVIDEND

The Board of directors has declared a final dividend of HK\$0.035 per share for the year ended 31 December 2003, amounting to a total sum of HK\$28,000,000 (equivalent to approximately RMB29,839,600).

Together with the interim dividend of HK\$0.015 per share, this will bring the total dividend distribution for the year to HK\$0.05 per share.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 26 April 2004 to Thursday, 29 April 2004 (both days inclusive), during which period no transfer of shares in the Company will be registered.

Dividend cheques will be despatched to shareholders on or about 14 May 2004. In order to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrars in Hong Kong, Abacus Share Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 23 April 2004.

Chairman's Statement

BUSINESS OUTLOOK

I. An analysis on market positioning

According to the "China Medical Statistical Year Book 2002" (2002 年中國醫藥統計年報), the scale of cephalosporins market in the PRC as a whole exceeded RMB11.9 billion in 2002. As indicated by such analysis, growth in the consumption of cephalosporins per annum was greater than 20% in the recent five years. At the same time, China adopted the tendering mechanism for medicines dedicated to be used in hospitals and the centralised social medical insurance mechanism. Moreover, pursuant to the "Notice on the Acceleration of the Supervision and Implementation of GMP" (關於全面加快監督實施藥品 GMP 工作進度的通知) issued by the then State Drug Administration of the PRC, all pharmaceutical manufacturing enterprises in the PRC are required to obtain Good Manufacturing Practice ("GMP") certification by 30 June 2004. Pharmaceutical manufacturing enterprises which fail to obtain GMP certification shall cease production, and thus may not continue their operation of pharmaceutical manufacturing business in the PRC.

II. Vertical integration of the enterprise

The Group is principally engaged in the PRC in the development, manufacture and sale of non-patented chemical medicines, including cephalosporins in sterile bulk medicines and powder for injection forms and their intermediate pharmaceuticals and system specific medicines. It is one of the few cephalosporins manufacturers in the PRC which has realised a comprehensive vertically integrated production. Currently, the Group's solvent crystallisation techniques for production of sterile bulk medicine is a leading technology employed in the PRC. The Group's cefoperazone sodium bulk medicine produced from this technique has commanded a market share of nearly 70% in the PRC.

As the market of cephalosporins is highly attractive, the Directors of the Group are fully aware that large pharmaceutical enterprises in the PRC, including State-owned enterprises and foreign invested enterprises, are starting to gradually increasing their investments in this industry. In addition to the policy impact on GMP production requirement, the Directors consider that in the coming three to five years, the production process in the nation will become standardised and the number of pharmaceutical manufacturers in the PRC will drop, whilst large pharmaceutical manufacturers will capitalise on the competitive edges on resources and operating efficiency arising from an integrated industrial chain to compete for market share. Effective allocation of resources within the pharmaceutical industry will focus on enterprises with adequate capital, technical process advantages and strong sales capabilities. Competition among such enterprises will also increase.

III. Our strategies

Under such circumstances, the Group has formulated and implemented the following strategies:

1. *To develop economies of scale*

Following the completion of the new bulk medicine workshop which commenced production in early 2003, the Group has a production capacity of third generation cephalosporins bulk medicine at 300 tonnes per annum. On this basis, in the second half of 2003, the Board decided to construct an additional 300 tonnes bulk medicine workshop, thereby making the third generation cephalosporins bulk medicine production capacity of Dawnrays Pharmaceutical to attain a high capacity by world standard as well as being a top-grade product in the PRC.

2. To focus on the development of medicines with huge market and commercial values

Currently, most pharmaceutical manufacturing enterprises in the PRC are regional in nature. These enterprises do not possess the resources and capacity of being an international large pharmaceutical manufacturer. Since the establishment of Dawnrays, the Group has been developing medicines based on patents near expiry but with huge market and commercial values in the PRC. The focus of the R&D lies on the production techniques and quality assurance. As the population in the PRC is huge, such model of R&D requires relatively smaller investments, but delivers reasonable return within a short lag time, and is suitable to the situation of the PRC as a whole.

3. Business models characterized by market segmentation and vertical integration

The Group has taken a balanced approach to the product mix of the development of cephalosporins and system specific medicines. The workshop for the production of cephalosporins powder for injection form will gradually increase production from 45 million vials per annum to 280 million vials per annum. As the average gross profit of cephalosporin is declining, the Group will significantly increase production volume, expand market share and incubate brand-name in respect of cephalosporins. It is believed that the price reduction of cephalosporins in the PRC will bring about significant increase in the market share of cephalosporins in the market of antibiotics in the PRC.

At the same time, by leveraging on the solid foundation in the market, as represented by a huge market share and high brand awareness created by our cephalosporins, the Group's system specific medicines, such as amlodipine besylate tablets, rapidly penetrated the end-user markets with remarkable sales growth, and contributed approximately 18% to the gross profit of the Group in Year 2003 (2002: contributed 9% to the Group's gross profit).

4. Establishing a 3-dimensional marketing model

After the Group was listed in July 2003, the Group has increased the market penetration of its product and has expanded its marketing network from metropolitan cities throughout the nation to the market, sales, and academic promotion network of regional township throughout the nation. At the same time, division of labour is witnessed in the marketing and sales system, so as to actively cope with different market segments. By incubating sources of end-users in hospital, and establishing intensive distribution channels, the penetration of cephalosporins extended from the existing prosperous cities to the huge inland markets. In respect of bulk medicines, local sales sources in the various provinces and cities established broad and mutually benefiting collaboration relationships among each other.

In respect of system specific medicines, more efforts were devoted promotions in the academic field, with a view to attract commentaries made by western medicine authorities in the PRC on the Group's products, and to develop products most needed by the market. A sound nationwide information feed-back mechanism covering users in the hospital was established.

Chairman's Statement

5. *Upward integration, international collaboration, and formation of alliances with strategic partners*

As at to date, the Group has been actively seeking for opportunities of upward integration of the industrial chain subject to globalisation and accession of the PRC into the WTO. At the same time, the Group is still interested to diversify into the operation of traditional Chinese medicines and healthcare nutritions products in a state-of-the-art form. Currently, products of Dawnrays Pharmaceutical were exported to foreign countries, including Thailand and Pakistan. The Group has been active in seeking strategic collaboration partners with respect to capital structure and business developments.

IV. Corporate governance

After its listing, the Board established Investment Development Committee and Human Resources Strategic Committee, which made the development of the Group more standardized and transparent, with respect to investment direction, creation of new products, appointment and removal of officers and structure of remuneration. The Board will improve the capabilities of the Group in corporate governance, so as to enhance the flexibility and sciences of the operation platform. An effective and transparent internal control mechanisms was thus established, so as to maintain sustainable and healthy development of the enterprise. It will further lay the foundation for the Group's acquisition in the market.

V. The creation of future jointly by the enterprise and its staff

After the Group was listed, the Board increased its pace in the training of expertise with international perspectives and good knowledge of the national situation of the PRC, so as to meet with the needs for the rapid development in the enterprise internationalisation and professionalisation. Shares will be transferred and share options will be granted to the brilliant senior management at fair prices. The Group has always treated in outperforming management team as well as the staff of Dawnrays Pharmaceutical countrywide as the most valuable intangible assets of the Group, which have been the greatest driving force to the further development of the Group. I would like to take this opportunity to express my deepest gratitude to the members of the Board, and to the staff of the Group's various companies and various departments who have used their best endeavours at work and dedicatedly served the Group in the past year.

Li Kei Ling
Chairman

16 March 2004

Management Discussion and Analysis

BUSINESS REVIEW

1. Production & Sales Operation

The Group continued to optimize its production process and production management for the production of cephalosporin medicines in powder for injection form so as to explore underutilized capacities for satisfying demand in the market to the greatest extent. Total output for cephalosporin medicines in powder for injection form amounted to 63,101,300 vials in year 2003, representing an increase of 85% over 33,941,600 vials in the previous year. Sales of cephalosporins in powder for injection forms was RMB230,976,000, representing an increase of 20% as compared with last year.

The new bulk medicine workshop commenced operation in early 2003. The Group fully leveraged on the additional capacity and expanded its production of bulk medicine on an extensive scale. A total of 223.10 tonnes of bulk medicine was produced in year 2003, which grew by 2.63 times over 61.49 tonnes in the previous year. Not only has the Group consolidated its leading position in the market of cefoperazone sodium, but also rapidly established its market share for ceftriaxone sodium by capitalizing on the advantages of its brand. Its market share has grown to over 25%. Sales of bulk medicines recorded by the Group during the year 2003 was RMB209,950,000, representing a growth of 86% compared with last year.

Output of preparation medicines in oral form (system specific medicines) was 100,684,900 tablets/ capsules for the year, which was increased by 1.06 times over 48,758,500 tablets/ capsules in the previous year. Sales of preparation medicines in oral form (system specific medicines) was RMB48,681,000 in year 2003, an increase of 122% as compared with last year.

2. Products In The Pipeline

During 2003, the Group obtained 7 clinical permits, 24 production and supplementary production permits from the State Food and Drug Administration of the PRC (“SFDA”). Of which, the Company succeeded in the R&D and launched three anti-infective drugs, namely sparflaxacin lactate, ceftazidime, and sulbactam sodium as well as compound ranitidine capsules, a medicine for the treatment of gastric ulcers. Currently, the Group has 47 species of medicines, 10 of which are new medicines. In addition to compound ranitidine capsules, more than 10 R&D projects, including a project for the fourth generation cephalosporins, are currently in the pipeline as planned. Another important task for the R&D team is to continue with the optimization of the production process, so as to enhance the quality and reduce the cost accordingly. The production process of intermediate for several anti-infective drugs and bulk medicines are further optimize, and thus their advantages in terms of quality and cost were consolidated.

3. Expansion of Production Facilities

The construction of the new bulk medicine workshop, which successfully passed the national GMP certification, has six production lines and an annual production capacity of 235 tonnes, was completed and commenced production in the first quarter of 2003. The construction of the new workshop for the production of cephalosporin medicines in powder for injection forms, which successfully passed the GMP certification of SFDA, has 12 production lines and an annual production capacity of 235,000,000 vials, was completed in the fourth quarter of 2003. Trial operation was successfully completed for one time in the fourth quarter of 2003. Equipment installation for the synthetic workshop with one production line for specific medicine and annual production capacity of 20 tonnes was also completed. Equipment testing and system commissioning is currently undergoing.

Management Discussion and Analysis

PROSPECTS

The Group's principal product, cephalosporins, has been the most popular medicine within its category in the PRC. It is anticipated that the demand of cephalosporins will enjoy greater growth. Various cephalosporin products of the Group have adopted our core technology, which has been enjoying obvious competitive advantages. Potential in the growth of sales remained high. Following the operation of a new workshop for the production of powder for injection commenced, sales of medicine in powder for injection form will not be subjected to limit in production capacity. However, following competitions in the cephalosporin medicines becoming more intensive, production will be focused on the integrated and consolidated pharmaceutical groups with the business model of "intermediate-bulk medicine-preparation medicine". The Group will continue to devote in strengthening antibiotics as a solid profit foundation.

Apart from antibiotics, system specific medicine is another foundation to support the Group's profitability. Currently, the sales of system specific medicines represents nearly 10% of the total turnover. The Group is currently consolidating its sales resources and strengthening capabilities in the development of market for system specific medicines. Amlodipine besylate, which was launched in late 2002, as well as compound ranitidine capsules, a medicine for the treatment of gastric ulcers launched in late 2003, are both international classic medicines. It is believed that with the expansion in the extent of marketing and promotion activities, the Group will achieve remarkable results. Following the increase in the sales of system specific medicines with high profit margin, the Group expects the overall gross profit margin will be lifted.

FINANCIAL REVIEW

Sales and Gross Profit

During the year ended 31 December 2003 (“the Reported Year”), the Group recorded sales income of approximately RMB491,388,000, representing an increase of 50% as compared with the previous year. Gross profit was approximately RMB205,903,000, an increase of 19% as compared with the previous year. Gross profit margin was 42% (2002: 53%). The main reasons for the fall in gross profit margin are as follows: firstly, the Group took the initiative in reducing prices to consolidate and increase market share; secondly, the Group increased proportion of sales of bulk medicine that have relatively lower gross profit margin; and thirdly, reductions in unit cost was less than reductions in sales prices of our products. The Group will continue to optimize production technology, strengthen production process management, and reduce material costs, with the effect that there have been obvious reductions in the unit costs of the products.

During the Reported Year, sales of bulk medicine amounted to RMB209,950,000, representing an increase of 86% as compared with RMB113,176,000 of year 2002. Sales of bulk medicine accounted for 43% of total sales (2002: 35%). Gross margin of bulk medicine in the Reported Year was approximately 20% (2002: 37%).

During the Reported Year, sales of preparation medicine powder for injection form amounted to RMB230,976,000, representing an increase of 20% as compared with year 2002. Sales of powder for injection form accounted for 47% of total sales (2002: 59%). Gross margin of preparation medicine powder for injection form in the Reported Year was approximately 55% (2002: 60%).

During the Reported Year, sales of system specific medicine amounted to RMB48,681,000, representing a 1.22 times increase as compared with RMB21,888,000 of year 2002. Sales of system specific medicine accounted for 10% of total sales (2002: 7%). Gross margin of system specific medicine in the Reported Year was approximately 78% (2002: 69%).

The two anti-infective drugs launched during the Reported Year, namely ceftazidime (bulk medicine form and powder for injection form) and sparfloxacin lactate contributed turnover of RMB3,428,000 and RMB3,985,000, respectively.

Expenses

Total expenses incurred during the Reported Year amounted to approximately RMB94,346,000, an increase of 31% over the previous year. Total expenses as a percentage of sales reduced to 19% (2002: 22%).

Of which, selling and distribution costs amounted to RMB56,795,000, an increase of 9% over the previous year. Selling and distribution cost as a percentage of sales reduced to 12% (2002: 16%).

Administrative costs and other operating costs amounted to RMB36,606,000, an increase of 89% over the previous year. The increase was due to expenses incurred by Suzhou Dawnrays Chemical Co., Ltd (construction work of which commenced in the second half year of 2002), expenses incurred by the Hong Kong head office (which was set up in the second half year of 2002), and increased research and development expenditures. Financial cost amounted to RMB945,000, an increase of 81% as compared with the previous year.

Management Discussion and Analysis

Profit Attributable to Shareholders and Income Tax

During the Reported Year, profit attributable to shareholders amounted to RMB108,022,000, a growth of approximately 8% over that of the previous year. Net profit margin was 22% (2002: 31%). The reduction in net profit margin was, mainly due to the fall in gross profit margin and the fact that Suzhou Dawnrays Pharmaceuticals Co., Ltd commenced to pay income tax during the Reported Year.

In 2003, Suzhou Dawnrays Pharmaceuticals Co., Ltd started, till the end of 2005, to be subject to its 50% tax exemption at a corporate income tax rate of 12%. This is in contrast with full exemption in the previous year. Shanghai Dawnrays Chemical Co. Ltd is exempted from corporate income tax and local corporate income tax for the second year.

Analysis on return of assets

During the Reported Year, with average total assets of RMB415,166,000, the Group realised net profit attributable to shareholders of RMB108,022,000, the Return on Total Assets (defined as Net Profit Attributable to Shareholders over Average Total Assets) was 26%, and far exceeded the average level of 4.29% for the nine months ended 30 September 2003 for the chemical pharmaceutical industry in accordance with the statistics compiled by the 中國化學制藥工業協會.

In fact, the Group capitalized on two important factors that were attributable to such Return on Total Assets: (1) Net Profit margin in the Report Year was approximately 22%; (2) rate of Total Assets Turnover (defined as Turnover over Average Total Assets) during the Reported Year was approximately 1.2 times. Turnover of funds was fast as a result of a high utilization rate in assets.

During the Report Year, Return on Equity (defined as Net Profit Attributable to Shareholders over Average Equity) was 38%.

Cashflow

The cashflows of the Group have been healthy. This was mainly attributable to the effective system of the Group established for sales management purpose, where performance appraisal of sales staff emphasized cash collection of sales money, thus reducing the aging period to a significant extent, and placing the responsibility of collection on the front-line sales staff. The Group adopted sound financial strategy, the supply of materials has credit period of three to six months. In R&D projects and market explorations, application of funds also pursued for principles of efficiency. With respect to capital expenditures on constructions of production facilities, tenders for major construction projects will be invited from the public, so as to strictly control estimation, budget and finalisation of accounts.

- 1) Net cash inflow from operating activities were RMB88,944,000 during the Reported Year.
- 2) Expenditures on construction projects and purchases of fixed assets and purchases of land-use-rights amounted to RMB64,992,000.
- 3) Profit distributions (including dividend paid to minority shareholders) amounted to RMB82,360,000.
- 4) Net proceeds from the New Issue of shares amounted to RMB155,286,000.

On 31 December 2003, the Group has monetary funds of RMB134,521,000 in hand, and no bank loans.

Liquidity, financial resources and capital structure

As at 31 December 2003, the Group's current assets amounted to approximately RMB360,141,000, whilst current liabilities was approximately RMB183,601,000. Net current assets were approximately RMB176,540,000.

As at 31 December 2003, the Group has aggregate bank facilities of approximately RMB325,000,000.

As at 31 December 2003, approximately RMB3,500,000 of the bank facility was secured over certain of the Group's properties. The pledge was subsequently released by banks in January 2004.

The debt ratio (defined as interest bearing loans and borrowings over total assets) of the Group as at 31 December 2003 was 0%.

Interest capitalized by the Group in relation to construction projects during the Reported Year was approximately RMB88,000.

As at 31 December 2003, the Group's capital commitments amounted to approximately RMB103,946,000 which will be funded by proceeds from listing and by internal resources.

Financial management, financial instruments and exchange rate risk

The Group implements a steady and prudent financial strategy. Exposure incurred during its course of financial management are managed in accordance with policies approved by the Board of Directors.

Substantially all of the revenue generating operations of the Group are normally transacted in Renminbi, which is not freely convertible into foreign currencies.

The Group's monetary assets and liabilities are normally denominated in Hong Kong Dollars, Renminbi and US Dollars.

The carrying amount of the Group's cash and cash equivalents, trade receivables and payables, other receivables and payables, borrowings and balances with related parties approximate their values because of the short maturity of these instruments.

The Group did not enter into any foreign exchange forward contracts or other hedging instruments to hedge against fluctuations, and the Group did not use any financial instruments.

Significant investments

Other than the expansion of the production facilities of Suzhou Dawnrays Pharmaceuticals Co., Ltd and establishment of a production plant for Suzhou Dawnrays Chemical Co., Ltd, as disclosed in the Company's prospectus dated 30 June 2003 under the section headed "Future Plans and Use of Proceeds", the Group did not have significant investments or material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2003.

Management Discussion and Analysis

Staff

Human resources is the most valuable assets of the Group. A professional, pragmatic, and highly efficient management team together with the staff as a whole is the Company's most valuable competitive advantage. The Group provides a competitive remuneration policy.

As at 31 December 2003, the Group employed approximately 749 employees (31 December 2002: approximately 535 employees) at market remuneration with employee benefits such as defined contribution retirement schemes, share option scheme and medical coverage. The Group provides certain of its employees in PRC with dormitory accommodation in PRC and makes monthly contribution to State unemployment insurance funds and to the State housing fund for employees in the PRC.

Total staff costs for the year were approximately RMB27,537,000 (2002: RMB15,978,000).

The Company has adopted a share option scheme. Under the share option scheme, the Eligible Persons (including the executive, non-executive and independent non-executive directors and employees of the Group (whether full time or part time)) may be granted options which enable them to subscribe for shares in the Company, up to a maximum of 10% of the shares in issue of the Company.

Options in respect of a total number of 40,000,000 shares has been granted during the year by the Company to Eligible Persons on 11 November 2003.

Charge on assets

As at 31 December 2003, buildings with net book values of approximately RMB3,500,000 were pledged to banks to obtain credit facilities. The pledge was subsequently released by banks in January 2004.

As at 31 December 2002, buildings and machinery and equipment with net book values of approximately RMB17,069,000 and RMB11,764,000 respectively, were pledged to banks to obtain credit facilities.

Plans for significant investments and expected source of funding

Details of the Group's future plans for significant investments and their expected source of funding have been stated in the Company's prospectus dated 30 June 2003 under the section headed "Future Plans and Use of Proceeds".

The Group plans to construct a new workshop for the production of cephalosporins bulk medicines to further increase the Group's production capacity of cephalosporins bulk medicines from the existing 300 tonnes per annum to approximately 600 tonnes per annum. The Group plans to fund this investment by internal resources.

Other than those disclosed above, the Group did not have any plan for material investments or capital assets.

Segment information

The Group's turnover and profit for the two years ended 31 December 2003 were mainly derived from the sale of medicines by the PRC subsidiaries to customers in the PRC. The principal assets employed by the Group are located in the PRC. Accordingly, no segmental analysis by business and geographical segments is provided.

Contingent liabilities

As at 31 December 2003, the Group had no material contingent liabilities (31 December 2002: Nil).

MAJOR SUPPLIERS AND CUSTOMERS

The percentage of purchases and sales for the year ended 31 December 2003 attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	23%
— five largest suppliers combined	47%

Sales

— the largest customer	8%
— five largest customers combined	23%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers stated above.

USE OF PROCEEDS FROM CAPITAL RAISING

The Group raised approximately HK\$146 million, net of related expenses, from the new issue and placing of 200,000,000 new shares of the Company at HK\$0.8 per share in July 2003. The Company's shares were successfully listed on the Stock Exchange of Hong Kong Limited on 11 July 2003. The Directors have applied the net proceeds as to approximately HK\$32 million for the expansion of production facilities of Suzhou Dawnrays Pharmaceuticals Co., Ltd and the establishment of a production plant for Suzhou Dawnrays Chemical Co., Ltd; approximately HK\$5 million on research and development; and approximately HK\$4 million as selling and marketing network cost. The remaining net proceeds from the new issue and the placing are currently placed with licensed banks in Hong Kong and PRC, and would be used in accordance with the intended use of proceeds as stated in the prospectus.

Report of the Directors

The board of Directors (“Board”) of Dawnrays Pharmaceutical (Holdings) Limited (the “Company”) submit their first report together with the audited accounts for the year ended 31 December 2003.

GROUP REORGANIZATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 20 September 2002 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The companies comprising the Group underwent a reorganization on 21 June 2003 to rationalize the Group’s structure in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, pursuant to which the Company became the holding company within the Group.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 11 July 2003.

The consolidated financial statements have been prepared by adopting uniting of interests method of accounting as a result of the Group Reorganization which involved entities under common control. Under this method, the Company has been treated as the holding company of its subsidiaries for the two years ended 31 December 2003 rather than from the date of acquisition of the subsidiaries. The consolidated results, changes in equity, cash flows and the consolidated balance sheets of the companies now comprising the Group have been prepared as if the current Group structure had been in existence throughout the two years, or from the respective dates of establishment/incorporation of the companies now comprising the Group, where this is a shorter period.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

All significant intra-group transactions and balances have been eliminated on consolidation.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 17 to the accounts. The Group is principally engaged in the development, manufacture and sale of non-patented chemical medicines including cephalosporins in sterile bulk medicine and powder for injection forms, their intermediate pharmaceuticals and system specific medicines in the People’s Republic of China (the “PRC”).

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 38.

The Board recommends the payment of a final dividend of HK\$0.035 per share for the year ended 31 December 2003.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the statement of changes in equity on pages 40 and 41 and in note 26 to the accounts.

DONATIONS

No charitable and other donations were made by the Group during the year.

SUBSIDIARIES

Details of the Company's subsidiaries, as at 31 December 2003, are set out in note 17 to the accounts.

FIXED ASSETS AND LAND-USE-RIGHTS

Details of the movements in fixed assets and land-use-rights of the Group and the Company are set out in notes 13 and 14 to the accounts, respectively.

With reference to the valuation of the Group's property interest pursuant to Appendix II to the Company's prospectus dated 30 June 2003, a revaluation surplus of approximately RMB4,941,000 arose. Such a revaluation surplus was not recorded in the Group's financial statements as the Group accounts for its property interests at cost. If such revaluation surplus was included in the Group's financial statements for the year ended 31 December 2003, an additional depreciation charge of approximately RMB276,000 per annum would be incurred.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 24 to the accounts.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group are set out in note 9 to the accounts.

DISTRIBUTABLE RESERVES

Pursuant to the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, share premium and contributed surplus of the Company are distributable to the shareholders. At 31 December 2003, the Company's reserves available for distribution to shareholders amounted in total to approximately RMB237,388,000 (2002: nil).

Report of the Directors

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Executive Directors

Ms. Li Kei Ling

Mr. Hung Yung Lai

Mr. Zhang Jing Xing (appointed on 1 June 2003)

Mr. Lam Kam Wah (appointed on 1 June 2003)

Mr. Li Tung Ming (appointed on 14 January 2004)

Mr. Xu Kehan (appointment with effect from 17 March 2004)

Non-Executive Director

Mr. Sik Siu Kwan Gary (appointed on 1 September 2003 and resigned on 13 January 2004)

Independent Non-Executive Directors

Mr. Pan Xue Tian (appointed on 1 June 2003)

Mr. Wang Gui Guo (appointed on 1 June 2003 and resigned on 25 November 2003)

Mr. Lee Cheuk Yin Dannis (appointed on 25 November 2003)

In accordance with the Company's Articles of Association, all directors will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Ms. Li Kei Ling, Mr. Hung Yung Lai, Mr. Zhang Jing Xing and Mr. Lam Kam Wah has each entered into a service contract with the Company for a term of two years from 1 July 2003 and will continue thereafter until terminated by not less than three month's notice in writing served by either party on the other. Each of the above four executive Directors is entitled to a basic salary which will be reviewed at the discretion of the Board after she or he has completed 12 months of service and a discretionary bonus payable at the absolute discretion of the Board. The current basic annual salary of each of Ms. Li Kei Ling, Mr. Hung Yung Lai, Mr. Zhang Jing Xing and Mr. Lam Kam Wah amounts to approximately HK\$360,000, HK\$360,000, HK\$1,440,000 and HK\$646,000 respectively.

Mr. Li Tung Ming has entered into a service contract with the Company for a term of two years from 14 January 2004 and will continue thereafter until terminated by not less than three month's notice in writing served by either party on the other. Mr. Li is entitled to a basic annual salary of HK\$360,000 which will be reviewed at the discretion of the Board after he has completed 12 months of service and a discretionary bonus payable at the absolute discretion of the Board.

Each of Mr. Pan Xue Tian and Mr. Lee Cheuk Yin, Dannis has been appointed as an independent non-executive Director for a period commencing on 1 July 2003 and 25 November 2003 respectively to 30 June 2005. Mr. Lee and Mr. Pan are currently entitled to an annual remuneration of HK\$72,000 and HK\$72,000 respectively. Save for the above director fee, the two independent non-executive Directors are not entitled to any other remuneration.

Mr. Xu Kehan is appointed as executive Director with effect from 17 March 2004. It is proposed that Mr. Xu will enter into a service agreement with the Company for an initial term of three years commencing from 17 March 2004 and will continue thereafter until terminated by not less than three month's notice in writing served by either party on the other. The basic annual salary of Mr. Xu Kehan is expected to amount to approximately HK\$504,000.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting, namely, Ms. Li Kei Ling, Mr. Hung Yung Lai, Mr. Zhang Jing Xing, Mr. Lam Kam Wah, Mr. Li Tung Ming, Mr. Xu Kehan, Mr. Pan Xue Tian and Mr. Lee Cheuk Yin Dannis, has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Further details of the Directors' emoluments are set out in note 7 to the accounts.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Ms. LI, Kei Ling (李其玲女士), aged 55, is an executive Director and the Chairman of the Company and is one of the founders of the Group. Ms. Li has over twenty years of experience in corporate management in respect of strategic planning, business operations and finance, in particular for pharmaceutical enterprises in the PRC. She is responsible for the overall planning and implementation of corporate development, financial management and strategies formulation of the Group. Ms. Li is a director of Suzhou Dawnrays Pharmaceuticals Co., Ltd, Suzhou Dawnrays Pharmaceutical Technology Co., Ltd, Shanghai Dawnrays Chemical Co., Ltd, Suzhou Dawnrays Chemical Co., Ltd and Dawnrays International Company Limited. Ms. Li had been an executive director of Sing Lee Software (Group) Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Ms. Li resigned from the position of executive director of Sing Lee Software (Group) Limited with effect from 6 January 2004.

Mr. HUNG, Yung Lai (熊融禮先生), aged 59, is an executive Director and one of the founders of the Group. Mr. Hung holds a degree from Shanghai Conservatory of Music (上海音樂學院). He has over twenty years of experience in corporate management in respect of strategic planning and corporate development, and has participated in the founding and managing of pharmaceutical and high-tech enterprises. In particular, Mr. Hung has developed expertise in the pharmaceutical and computer software industries in the PRC. Mr. Hung is a director of Suzhou Dawnrays Pharmaceuticals Co., Ltd, Suzhou Dawnrays Pharmaceutical Technology Co., Ltd, Shanghai Dawnrays Chemical Co., Ltd, Suzhou Dawnrays Chemical Co., Ltd and Dawnrays International Company Limited. Mr. Hung is an executive director and the chairman of Sing Lee Software (Group) Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

Report of the Directors

Mr. ZHANG, Jing Xing (張京星先生), aged 48, is an executive Director and the President of the Company. Mr. Zhang has over twenty years of experience in corporate management, production, marketing and research and development in pharmaceutical enterprises. He previously was the vice general manager of 中國珠海經濟特區麗珠醫藥集團股份有限公司 (Livzon Pharmaceutical Group Inc.) and has developed a deep understanding of the pharmaceutical industry in the PRC. Mr. Zhang joined the Group in September 1996 and is responsible for overseeing the operations of the Group. Mr. Zhang is a director of Suzhou Dawnrays Pharmaceuticals Co., Ltd, Suzhou Dawnrays Pharmaceutical Technology Co., Ltd, Shanghai Dawnrays Chemical Co., Ltd, and Suzhou Dawnrays Chemical Co., Ltd.

Mr. LAM, Kam Wah (林錦華先生), aged 50, is an executive Director and the Vice President of the Company. He graduated from the Chinese University of Hong Kong with a bachelor's degree in social sciences. Mr. Lam has over fifteen years of experience in pharmaceutical trading and enterprise administration management. He joined the Group in December 1995 and is responsible for overseeing the international businesses and daily administration of the Group. Mr. Lam is a director of Suzhou Dawnrays Pharmaceuticals Co., Ltd and Suzhou Dawnrays Chemical Co., Ltd.

Mr. LI, Tung Ming (李東明先生), aged 55, is an executive Director of the Company. Mr. Li has over twenty years of experience in the pharmaceutical industry in the PRC, and began his career in product development, promotion, sales and corporate management in the pharmaceutical market in the PRC in 1980. Mr. Li joined the Group in April 2000, and is responsible for the development and promotion of the Group's new products. Mr. Li is a director of Suzhou Dawnrays Pharmaceuticals Co., Ltd, Shanghai Dawnrays Chemical Co., Ltd and Suzhou Dawnrays Chemical Co., Ltd.

Mr. XU, Kehan (許克寒先生), aged 31, is appointed as an executive director (finance) of the Company with effect from 17 March 2004. Mr. Xu is responsible for the corporate investments policy formulation and implementation, capital planning, investor relations, risk management, strategic positioning and corporate policy research. Mr. Xu has served the Group as the Strategic Adviser to the Chairman of the Board and the Chief Investment Officer of the Group. Mr. Xu holds a master's degree in Business Administration from the University of Miami in the USA with specialization in Investments. Mr. Xu is currently the Doctoral Candidate (part-time) in Strategic Management of the Graduate School of Business of the Hong Kong Polytechnic University. Mr. Xu joined the Group in November 2003.

Independent non-executive Directors

Mr. PAN, Xue Tian (潘學田先生), aged 67, is an independent non-executive Director of the Company. He joined the Group in June 2003. Mr. Pan is the Vice President and the Secretary General of 中華醫院管理學會 (the Chinese Hospital Association), an adviser to 中國藥典委員會 (Pharmacopoeia Commission of the PRC) and the president of 中國保健科技學會 (the Health Care Science and Technology Society of China). Mr. Pan has extensive experience in drug administration and supervision, medical hygiene and hospital management, and has assumed various senior management positions in the Ministry of Health of the PRC. Mr. Pan graduated from the medicine faculty of 中國大連醫學院 (Dalian Medical University of the PRC).

Mr. LEE, Cheuk Yin Dannis (李卓然先生), aged 33, is an independent non-executive director of the Company. Mr. Lee joined the Group in November 2003. Mr. Lee is a first class honours graduate of Bachelor of Business Administration from Texas A&M university in the USA and is an associate member of the Hong Kong Society of Accountants and a member of the American Institute of Certified Public Accountants. From 1992 to 1995, Mr. Lee worked in an international accounting firm as a senior accountant. From 1995 to 1996, Mr. Lee worked in Philip Morris Asia Inc. as a senior accountant. From 1996 to 2001, Mr. Lee worked in an international accounting firm as a manager. Mr. Lee is an executive director and financial controller of Vision Grande Group Holdings Limited. Mr. Lee is an executive director of Norstar Founders Group Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Lee is also an independent non-executive director of Geely Automobile Holdings Limited (formerly known as Guorun Holdings Limited), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Senior Management

Apart from the Directors, the senior management of the Group includes:

Mr. GAO, Yi (高毅先生), aged 49, is the Managing Vice President of the Company, responsible for overseeing the PRC operation of the Group. Mr. Gao graduated from 廣州市衛生中等技術專科學校 (藥業專業) (Guangzhou Health Secondary Technical School (pharmaceutical profession)) and 廣州醫科大學 (醫科專業) (Guangzhou Medical University (medical profession)). Mr. Gao has been working at 廣州市藥品檢驗所 (Guangzhou Institute for Drug Control) as a medical inspector for seven years. From 1994 to 2003, Mr. Gao has been the deputy general manager and general manager of 石家莊石藥集團聯合製藥廠 (Shijiazhuang Shiyao Group Union Pharmaceutical Factory) and 珠海經濟特區麗康醫藥有限公司 (Zhuhai Economic Zone Li Kang Pharmaceuticals Company Limited) respectively for five years each. Mr. Gao joined the Group in July 2003.

Mr. ZHAO, Shi Xi (趙是熙先生), aged 39, is the Vice President of the Company and the General Manager of Suzhou Dawnrays Pharmaceuticals Co., Ltd. Mr. Zhao is a pharmaceuticals engineer and obtained a master's degree in inorganic chemistry from 蘇州大學 (Suzhou University) and was a practical assistant teacher of Suzhou Vocational University in basic chemistry for six years. Before joining the Group, Mr. Zhao was the chief officer of the quality control department of 蘇州中化藥品工業有限公司 (Suzhou Chung-Hwa Chemical & Pharmaceutical Industrial Co. Ltd.). Mr. Zhao joined the Group in May 1997 and is responsible for supervising the production and research and development activities of the Group.

Mr. SUN, Ming Yao (孫明耀先生), aged 45, is the Head of Sales of the Company. Mr. Sun has over twenty years of experience in sales, marketing and business development and held managerial positions in pharmaceutical trading companies including 蘇州醫藥採購供應站 (Suzhou Pharmaceuticals Supply Station) and 蘇州藥品經營公司 (Suzhou Pharmaceuticals Trading Company) before joining the Group in September 1998.

Ms. BAO, Xiao Qun (包曉群女士), aged 38, is the Head of Training of the Company. She obtained a master's degree in neurology and a doctorate degree in medicine from 白求恩醫科大學 (Norman Bethune University of Medical Sciences). Ms. Bao has over ten years' experience in neurological therapy, teaching and research and development, and six years' experience in pharmaceutical trading. She joined the Group in June 2001.

Report of the Directors

Ms. CHU, Hong (初虹女士), aged 39, is the Head of Research and Development of the Company. Ms. Chu is licensed pharmacist and senior engineer. She graduated from 瀋陽藥學院 (Shenyang Institute of Pharmacy) with a bachelor's degree in microbial pharmacy and has sixteen years' experience in production, quality control and research and development for pharmaceutical operations. Prior to joining the Group in August 2002, Ms. Chu was the vice factory manager of 蘇州第二製藥廠 (Suzhou Second Pharmaceutical Factory) and the vice director of the development department of 蘇州醫藥集團有限公司 (Suzhou Pharmaceutical Group Co. Ltd).

Mr. XIA, Zhen Hua (夏振華先生), aged 38, is the Factory Director of Suzhou Dawnrays Pharmaceuticals Co., Ltd, responsible for overseeing the production of Suzhou Dawnrays Pharmaceuticals Co., Ltd. Mr. Xia, a licensed pharmacist and senior engineer, graduated from 中國藥科大學 (The University of Medicine of the PRC) with a bachelor's degree in pharmaceutical analysis. He has sixteen years' experience in pharmaceutical production management and quality control. Before joining the Group in May 2002, Mr. Xia was the chief engineer of 蘇州第四製藥廠 (Suzhou Fourth Pharmaceutical Factory).

Mr. ZHU, Qin Sheng (朱琴生先生), aged 51, is the General Manager of Shanghai Dawnrays Chemical Co., Ltd, responsible for overseeing the operations of Shanghai Dawnrays Chemical Co., Ltd. Mr. Zhu has twenty-six years' experience in production management, financial management and operations for pharmaceutical enterprises. He was the assistant factory director of 蘇州第三製藥廠 (Suzhou Third Pharmaceutical Factory) before joining the Group in April 1998.

Mr. LI, Jian Xiang (李建翔先生), aged 48, is the General Manager of Suzhou Dawnrays Chemical Co., Ltd, responsible for overseeing the operations of Suzhou Dawnrays Chemical Co., Ltd. Mr. Li has twenty-seven years' experience in production management, engine facilities maintenance and operations for pharmaceutical enterprises. He was the factory director of 蘇州第二製藥廠 (Suzhou Second Pharmaceutical Factory) before joining the Group in April 1998.

Mr. CHEN, Jian Dong (陳建東先生), aged 39, is the General Manager of Suzhou Dawnrays Pharmaceutical Technology Co., Ltd. Mr. Chen is a qualified pharmaceutical engineer and licensed pharmacist and has a bachelor's degree in chemical pharmacology from 中國藥科大學 (The Pharmaceuticals University of the PRC) where he spent three years as an assistant teacher. He was the head of the research centre and antibiotics workshop manager at 蘇州第四製藥廠 (Suzhou Fourth Pharmaceutical Factory) and the head of the registration section of the research and development department of 蘇州中化藥品工業有限公司 (Suzhou Chung-Hwa Chemical & Pharmaceutical Industrial Co. Ltd) prior to joining the Group in April 2002.

DISCLOSURE OF INTEREST

(a) Interests of the Directors and chief executive of the Company in the Company and its associated corporations

As at 31 December 2003, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they were taken or deemed to have under such provisions of the SFO; or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules were as follows:

(i) *Interests in the Company*

Name of Director	Capacity/Nature of interest	Number of ordinary shares of HK\$0.10 each <i>(Note 1)</i>	Approximate percentage of shareholding
Ms. Li Kei Ling	Interest of controlled corporations	552,000,000 (L) <i>(Note 2)</i>	69%
	Beneficial interest	700,000 (L) <i>(Note 6)</i>	0.0875%
Mr. Hung Yung Lai	Interest of controlled corporations	552,000,000 (L) <i>(Note 3)</i>	69%
	Beneficial interest	700,000 (L) <i>(Note 7)</i>	0.0875%
Mr. Zhang Jing Xing	Beneficial interest	1,500,000 (L) <i>(Note 8)</i>	0.1875%
Mr. Lam Kam Wah	Beneficial interest	848,000 (L) <i>(Note 9)</i>	0.106%

Report of the Directors

(ii) Interest in the shares of associated corporations of the Company

Name of associated corporation	Name of Director	Capacity/Nature of interest	Number of ordinary share(s) of US\$1.00 each (Note 1)	Approximate percentage of shareholding
Fortune United Group Limited	Ms. Li Kei Ling	Interest of a controlled corporation	2 (L) (Note 4)	50%
Fortune United Group Limited	Mr. Hung Yung Lai	Interest of a controlled corporation	2 (L) (Note 5)	50%

Notes:

- The letter "L" denotes a long position in shares.
- These shares are beneficially owned by Fortune United Group Limited. By virtue of her shareholding interest in Fortune United Group Limited through Keysmart Enterprises Limited as mentioned in Note 4 below, Ms. Li Kei Ling is deemed or taken to be interested in the 552,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
- These shares are beneficially owned by Fortune United Group Limited. By virtue of his shareholding interest in Fortune United Group Limited through Hunwick International Limited as mentioned in Note 5 below, Mr. Hung Yung Lai is deemed or taken to be interested in the ordinary 552,000,000 shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
- Two shares of US\$1.00 each of Fortune United (representing 50% of the issued share capital of Fortune United Group Limited) are beneficially owned by Keysmart Enterprises Limited, a company wholly owned by Ms. Li Kei Ling. By virtue of her beneficial interest in 100% of the share capital of Keysmart Enterprises Limited, Ms. Li Kei Ling is deemed or taken to be interested in the two ordinary shares of US\$1.00 each in the share capital of Fortune United Group Limited owned by Keysmart Enterprises Limited for the purpose of the SFO.
- Two shares of US\$1.00 each of Fortune United (representing 50% of the issued share capital of Fortune United Group Limited) are beneficially owned by Hunwick International Limited, a company wholly owned by Mr. Hung Yung Lai. By virtue of his beneficial interest in 100% of the share capital of Hunwick International Limited, Mr. Hung Yung Lai is deemed or taken to be interested in the two ordinary shares of US\$1.00 each in the share capital of Fortune United Group Limited owned by Hunwick International Limited for the purpose of the SFO.
- Pursuant to the share option scheme of the Company adopted on 21 June 2003, Ms. Li Kei Ling was granted an option to subscribe for a total of 700,000 shares by the Company on 11 November 2003, details of which are set out in the paragraph headed "Share Option Scheme" of the Report of the Directors on page 27 of this annual report.
- Pursuant to the share option scheme of the Company adopted on 21 June 2003, Mr. Hung Yung Lai was granted an option to subscribe for a total of 700,000 shares by the Company on 11 November 2003, details of which are set out in the paragraph headed "Share Option Scheme" of the Report of the Directors on page 27 of this annual report.
- Pursuant to the share option scheme of the Company adopted on 21 June 2003, Mr. Zhang Jing Xing was granted an option to subscribe for a total of 1,500,000 shares by the Company on 11 November 2003, details of which are set out in the paragraph headed "Share Option Scheme" of the Report of the Directors on page 27 of this annual report.
- Pursuant to the share option scheme of the Company adopted on 21 June 2003, Mr. Lam Kam Wah was granted an option to subscribe for a total of 848,000 shares by the Company on 11 November 2003, details of which are set out in the paragraph headed "Share Option Scheme" of the Report of the Directors on page 27 of this annual report.

Report of the Directors

Subsequent to 31 December 2003, on 14 January 2004 Fortune United Group Limited entered into a sale and purchase agreement with Ray Sheen Company Limited, a company wholly-owned by Mr. Zhang Jing Xing, a Director, pursuant to which Ray Sheen Company acquired 152,000,000 shares of the Company, representing 19% of the total issued capital of the Company, from Fortune United Group Limited.

Subsequent to 31 December 2003, on 14 January 2004 Fortune United Group Limited entered into another sale and purchase agreement with Time Lead Investments Limited, a company wholly-owned by Mr. Li Tung Ming, a Director, pursuant to which Time Lead Investments Limited acquired 56,000,000 shares of the Company, representing 7% of the total issued capital of the Company, from Fortune United Group Limited.

As at the date of this annual report, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the SFO), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they are taken or deemed to have under such provisions of the SFO; or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules are as follows:

(i) *Interests in the Company*

Name of Director	Capacity/Nature of interest	Number of ordinary shares of HK\$0.10 each (Note 10)	Approximate percentage of shareholding
Ms. Li Kei Ling	Interest of controlled corporations	344,000,000 (L) (Note 11)	43%
	Beneficial interest	700,000 (L) (Note 6)	0.0875%
Mr. Hung Yung Lai	Interest of controlled corporations	344,000,000 (L) (Note 12)	43%
	Beneficial interest	700,000 (L) (Note 7)	0.0875%
Mr. Zhang Jing Xing	Interest of controlled corporation	152,000,000 (L) (Note 13)	19%
	Beneficial interest	1,500,000 (L) (Note 8)	0.1875%
Mr. Li Tung Ming	Interest of controlled corporation	56,000,000 (L) (Note 14)	7%
	Beneficial interest	1,048,000 (L) (Note 15)	0.131%
Mr. Lam Kam Wah	Beneficial interest	848,000 (L) (Note 9)	0.106%

Report of the Directors

(ii) Interest in the shares of associated corporations of the Company

Name of associated corporation	Name of Director	Capacity/Nature of interest	Number of ordinary share(s) of US\$1.00 each (Note 10)	Approximate percentage of shareholding
Fortune United Group Limited	Ms. Li Kei Ling	Interest of a controlled corporation	2 (L) (Note 4)	50%
Fortune United Group Limited	Mr. Hung Yung Lai	Interest of a controlled corporation	2 (L) (Note 5)	50%

Notes:

10. The letter "L" denotes a long position in shares.
11. These shares are beneficially owned by Fortune United Group Limited. By virtue of her shareholding interest in Fortune United Group Limited through Keysmart Enterprises Limited as mentioned in Note 4 above, Ms. Li Kei Ling is deemed or taken to be interested in the 344,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
12. These shares are beneficially owned by Fortune United Group Limited. By virtue of his shareholding interest in Fortune United Group Limited through Hunwick International Limited as mentioned in Note 5 above, Mr. Hung Yung Lai is deemed or taken to be interested in the ordinary 344,000,000 shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
13. These shares are beneficially owned by Ray Sheen Company Limited, a company wholly owned by Mr. Zhang Jing Xing. By virtue of his shareholding interests in 100% of the share capital of Ray Sheen Company Limited, Mr. Zhang Jing Xing is deemed or taken to be interested in the 152,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Ray Sheen Company Limited for the purpose of the SFO.
14. These shares are beneficially owned by Time Lead Investments Limited, a company wholly owned by Mr. Li Tung Ming. By virtue of his shareholding interests in 100% of the share capital of Time Lead Investments Limited, Mr. Li Tung Ming is deemed or taken to be interested in the 56,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Time Lead Investments Limited for the purpose of the SFO.
15. Pursuant to the share option scheme of the Company adopted on 21 June 2003, Mr. Li Tung Ming was granted an option to subscribe for a total of 1,048,000 shares by the Company on 11 November 2003, details of which are set out in the paragraph headed "Share Option Scheme" of the Report of the Directors on page 27 of this annual report.

Mr. Xu Kehan is appointed as an Executive Director of the Company with effect from 17 March 2004. Mr. Xu is the beneficial owner of 120,000 ordinary shares of the Company. Pursuant to the share option scheme of the Company adopted on 21 June 2003, Mr. Xu was granted an option to subscribe for a total 548,000 shares in the Company on 11 November 2003, details of which are set out in the paragraph headed "Share Option Scheme" of the Report of the Directors on page 27 of this annual report. Thus Mr. Xu has beneficial interest (long position) in an aggregate of 668,000 shares and underlying shares of the Company, representing approximately 0.0835% of the Company's issued share capital.

Save as disclosed herein, as at the date of this Annual Report, none of the Directors has any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to section 352 of the SFO, to be recorded in the register referred therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange.

Unless otherwise stated in this Annual Report, the Directors have no family or business relationship with any other Directors, senior management or substantial or controlling shareholders of the Company referred to herein.

(b) Interests of the substantial shareholders in the Company

As at 31 December 2003, so far is known to the Directors, shareholders (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register required to be kept under section 336 of the SFO or who were, directly or indirectly, deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name	Capacity/Nature of interest	Number of ordinary shares of HK\$0.10 each (Note 1)	Approximate percentage of shareholding
Fortune United Group Limited	Beneficial owner	552,000,000 (L)	69%
Keysmart Enterprises Limited	Interest of a controlled corporation	552,000,000 (L) (Note 2)	69%
Hunwick International Limited	Interest of a controlled corporation	552,000,000 (L) (Note 3)	69%
Mdm Iu Pun	Interest of spouse	552,700,000 (L) (Note 4)	69.0875%

Notes:

- The letter "L" denotes a long position in shares.
- Keysmart Enterprises Limited, which is wholly owned by Ms. Li Kei Ling, is beneficially interested in 50% of the share capital of Fortune United Group Limited and is deemed or taken to be interested in the 552,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
- Hunwick International Limited, which is wholly owned by Mr. Hung Yung Lai, is beneficially interested in 50% of the share capital of Fortune United Group Limited and is deemed or taken to be interested in the 552,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
- Mdm Iu Pun is the wife of Mr. Hung Yung Lai and is deemed to be interested in these shares in which Mr. Hung Yung Lai is deemed or taken to be interested for the purpose of the SFO.

Report of the Directors

As at the date of this annual report, so far is known to the Directors, shareholders (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register required to be kept under section 336 of the SFO or who were, directly or indirectly, deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name	Capacity/Nature of interest	Number of ordinary shares of HK\$0.10 each (Note 5)	Approximate percentage of shareholding
Fortune United Group Limited	Beneficial owner	344,000,000 (L)	43%
Keysmart Enterprises Limited	Interest of a controlled corporation	344,000,000 (L) (Note 6)	43%
Hunwick International Limited	Interest of a controlled corporation	344,000,000 (L) (Note 7)	43%
Mdm Iu Pun	Interest of spouse	344,700,000 (L) (Note 8)	43.0875%
Ray Sheen Company Limited	Beneficial owner	152,000,000 (L)	19%
Time Lead Investments Limited	Beneficial owner	56,000,000 (L)	7%
Mdm Luo Yang	Interest of spouse	153,500,000 (L) (Note 9)	19.1875%

Notes:

5. The letter "L" denotes a long position in shares.
6. Keysmart Enterprises Limited, which is wholly owned by Ms. Li Kei Ling, is beneficially interested in 50% of the share capital of Fortune United Group Limited and is deemed or taken to be interested in the 344,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
7. Hunwick International Limited, which is wholly owned by Mr. Hung Yung Lai, is beneficially interested in 50% of the share capital of Fortune United Group Limited and is deemed or taken to be interested in the 344,000,000 ordinary shares of HK\$0.10 each in the share capital of the Company owned by Fortune United Group Limited for the purpose of the SFO.
8. Mdm Iu Pun is the wife of Mr. Hung Yung Lai and is deemed to be interested in these shares in which Mr. Hung Yung Lai is deemed or taken to be interested for the purpose of the SFO.
9. Mdm Luo Yang is the wife of Mr. Zhang Jing Xing and is deemed to be interested in these shares in which Mr. Zhang Jing Xing is deemed or taken to be interested for the purpose of the SFO.

(c) Interests of other persons in the Company

As at 31 December 2003, so far as known to the Directors, there were no person or company (not being a Director or a chief executive or a substantial shareholder of the Company) who had interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the “Share Option Scheme”) on 21 June 2003. Options in respect of a total number of 40,000,000 shares has been granted by the Company to Eligible Persons on 11 November 2003. The principal terms of the Share Option Scheme are summarized below:

- (i) The purpose of the Share Option Scheme is to enable the Board to grant options to selected Eligible Persons as incentives or rewards for their contribution or potential contribution to the Group.
- (ii) The Board may, at its absolute discretion and on such terms as it may think fit, grant options to any Eligible Persons (including the executive, non-executive and independent non-executive Directors and employees of the Group (whether full time or part time)).
- (iii) The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the existing issued share capital of the Company as at the date of this annual report (“Mandate Limit”). Accordingly, the maximum number of shares which may be granted under the Share Option Scheme shall not exceed 80,000,000 shares. The Company may, however, seek approval by its shareholders in general meeting to renew the Mandate Limit in accordance with the Listing Rules.
- (iv) The maximum entitlement of each Eligible Person - the maximum number of shares issued and to be issued upon exercise of options granted under the Share Option Scheme and any other share option schemes of the Company to any Eligible Person (including cancelled, exercised and outstanding options), in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue of the Company. Any further grant of options in excess of such limit must be separately approved by shareholders with such Eligible Person and his associates abstaining from voting.
- (v) Time of exercise of option - An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period commencing on such date on or after the date on which the option is granted as the Board may determine in granting the option and expiring at the close of business on such date as the Board may determine in granting the option but in any event shall not exceed ten years from the date of grant.
- (vi) A non-refundable remittance of HK\$10 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the option.
- (vii) The subscription price of a share in respect of option granted shall be at least the higher of (a) the closing price of the Company’s shares on the Stock Exchange of Hong Kong Limited, as stated in the Stock Exchange’s daily quotations sheet on the relevant offer date in respect of such option; (b) the average of the closing prices of the Company’s shares on the Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the option; and (c) the nominal value of the ordinary shares of the Company.
- (viii) The life of the Share Option Scheme is until 20 June 2013.

Report of the Directors

The Company has granted options on 11 November 2003 to 456 employees (including Directors) to subscribe for 40,000,000 shares of the Company at exercise price of HK\$0.83 per share. Details of the share options granted under the Share Options Scheme as at 31 December 2003 were as follows:

Type of grantees	Options in the Company					Date of grant	Exercise period	Exercise price per share HK\$	Note
	As at 1 January 2003	Granted during the year	Exercised during the year	Lapsed during the year	As at 31 December 2003				
5 Executive Directors:									
LI Kei Ling	—	700,000	—	—	700,000	11 November 2003	11 November 2004 to 10 November 2007	0.83	(i), (iv)
HUNG Yung Lai	—	700,000	—	—	700,000	11 November 2003	11 November 2004 to 10 November 2007	0.83	(i), (iv)
ZHANG Jing Xing	—	1,500,000	—	—	1,500,000	11 November 2003	11 November 2004 to 10 November 2007	0.83	(i), (iv)
LAM Kam Wah	—	848,000	—	—	848,000	11 November 2003	11 November 2004 to 10 November 2007	0.83	(i), (iv)
LI Tung Ming <i>Note (ii)</i>	—	1,048,000	—	—	1,048,000	11 November 2003	11 November 2004 to 10 November 2007	0.83	(i), (iv)
XU Kehan <i>Note (iii)</i>	—	548,000	—	—	548,000	11 November 2003	11 November 2004 to 10 November 2007	0.83	(i), (iv)
450 other continuing contract employees	—	34,656,000	—	(84,000)	34,572,000	11 November 2003	11 November 2004 to 10 November 2007	0.83	(i), (iv)
Total	—	40,000,000	—	(84,000)	39,916,000				

No share options were cancelled during the year.

Notes:

- (i) The closing market price per share on the trading date immediately before the date on which the options were granted was HK\$0.87.
- (ii) Mr. LI Tung Ming was appointed as executive Director on 14 January 2004.
- (iii) Mr. XU Kehan is appointed as executive Director with effect from 17 March 2004.
- (iv) No part of the option will be exercisable at any time prior to the first anniversary of the date of grant. 20% of the option (the “First Portion”) will be exercisable at any time on or after the first anniversary of the date of grant up to and including 10 November 2005.

A further 30% of the option plus any remaining balance of the shares under the First Portion that have not been exercised (together, the “Second Portion”) will be exercisable at any time on or after the second anniversary of the date of grant up to and including 10 November 2006.

The remaining 50% of the option plus the remaining balance of the shares under the Second Portion that have not been exercised will be exercisable at any time on or after the third anniversary of the date of grant up to and including 10 November 2007.

Valuation of options

The options granted are not recognized in the financial statements of the Company until they are exercised. Upon exercise of the options, HK\$0.1 per share will be credited to share capital and the balance of the exercise price will be credited to share premium account.

The Directors consider it inappropriate to state the value of the options granted during the year on the ground that a number of variables which are crucial for the valuation of the option value cannot be accurately determined. Accordingly, the Directors believe that any valuation of the share options based on various speculative assumptions would not be meaningful and may be misleading.

Arrangement to purchase shares or debentures

Under the terms of the Company's Share Option Scheme adopted on 21 June 2003, the Board may, at its absolute discretion and on such terms as it may think fit, grant options to any eligible persons (including the executive directors, non-executive directors and independent non-executive directors and employees of the Group (whether full time or part time)).

Apart from the aforesaid, at no time during the year was the Company, or its subsidiaries, a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive, nor any of their spouses or children under the age of 18, had any interest in, or had been granted, or exercised, any right to subscribe for the securities and options of the Company and its associated corporation within the meaning of the SFO, or had exercised any such rights.

DIRECTORS' INTERESTS IN CONTRACTS AND CONTROLLING SHAREHOLDER'S INTEREST IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which a director of the Company or a controlling shareholder or any of its subsidiaries, had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

No contracts of significance for the provision of services to the Company or any of its subsidiaries by a controlling shareholder or any of its subsidiaries were entered into or existed during the year.

CONNECTED TRANSACTIONS

Details of exempted connected transactions are disclosed in note 29 to the accounts.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the period from 11 July 2003 (the "Listing Date") to 31 December 2003.

PRE-EMPTIVE RIGHTS

No provisions for pre-emptive rights which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders exist in the Cayman Islands, being the jurisdiction in which the Company was incorporated.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company has complied with Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited since its shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited.

AUDIT COMMITTEE

The Company established an audit committee on 21 June 2003 with written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 of The Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the board of directors. The audit committee comprises two members, namely Mr. Lee Cheuk Yin Dannis (independent non-executive director), who was appointed as the Chairman of the Audit Committee on 25 November 2003 in place of Professor Wang Gui Guo who resigned on the same date, and Mr. Pan Xue Tian (independent non-executive director).

During the year, the Audit Committee met one time. The Audit Committee has reviewed the audited accounts for 2003 before recommending it to the Board of Directors for approval.

AUDITORS

The accounts have been audited by Ernst & Young who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Li Kei Ling

Chairman

Hong Kong, 16 March 2004

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Dawnrays Pharmaceutical (Holdings) Limited (“the Company”) will be held at Plaza IV, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Thursday, 29 April 2004 at 10:00 a.m. for the following purposes:-

1. To receive and consider the audited consolidated financial statements and the reports of the directors and the auditors for the financial year ended 31 December 2003.
2. To declare a final dividend.
3. To re-elect the retiring directors and authorise the board of directors of the Company (the “Board”) to fix the remuneration of the directors.
4. To re-appoint auditors and to authorise the Board to fix their remuneration.
5. To consider and, if thought fit, pass with or without amendments the following resolutions as **Ordinary Resolutions**:-

(A) **“THAT**

- (i) subject to paragraph (ii) of this resolution, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements, options (including bonds, warrants and debentures convertible into shares of the Company) and rights of exchange or conversion which might require the exercise of such powers, in accordance with all applicable laws and requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time, be and is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) of this resolution above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements, options (including bonds, warrants and debentures convertible into shares of the Company) and rights of exchange or conversion which might require the exercise of such powers after the end of the Relevant Period;
- (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval granted in paragraph (i) of this resolution above, otherwise than pursuant to (a) a Rights Issue, or (b) the exercise of options under any share option scheme or similar arrangement adopted by the Company for the grant or issue to the eligible participants of the Company and/or any of its subsidiaries and/or associated companies of options to subscribe for or rights to acquire shares of the Company, or (c) an issue of shares of the Company as scrip dividend or similar arrangement in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and the said approval shall be limited accordingly; and

Notice of Annual General Meeting

- (iv) for the purpose of this resolution:

“Relevant Period” means the period from the date of passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and
- (c) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution of the Company in general meeting.

“Rights Issue” means an offer of shares of the Company open for a period fixed by the directors of the Company to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange, in any territory outside Hong Kong).”

(B) “THAT

- (i) subject to paragraph (ii) of this resolution below, the exercise by the directors of the Company during the Relevant Period of all powers of the Company to purchase or otherwise acquire shares in the capital of the Company in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended from time to time be is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of shares of the Company which are authorised to be purchased pursuant to the approval in paragraph (i) of this resolution above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and the said approval shall be limited accordingly; and
- (iii) for the purpose of this resolution:

“Relevant Period” means the period from the date of passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general date of meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and
- (c) the date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution of the Company in general meeting.”

Notice of Annual General Meeting

(C) “**THAT**

conditional upon the passing of the resolutions set out in paragraphs 5(A) and 5(B) of the notice convening this meeting, the general mandate granted to the directors of the Company to exercise the powers of the Company to allot, issue and otherwise deal with shares of the Company pursuant to the resolution set out in paragraph 5(A) of the notice convening this meeting be and is hereby extended by the addition thereto an amount representing the aggregate nominal amount of shares of the Company purchased or otherwise acquired by the Company pursuant to the authority granted to the directors of the Company under the resolution set out in paragraph 5(B) above of the notice convening this meeting.”

6. To consider and, if thought fit, pass the following resolution as a **Special Resolution**:-

“**THAT**

- (i) Article 2 of the Articles of Association of the Company be amended by inserting the following new definition:

“associate has the meaning attributed to it in the rules of the Designated Stock Exchange.”

- (ii) 1. Existing Articles 76 of the Articles of Association of the Company be re-numbered as Article 76(1).

2. A new Article 76(2) be added to the Articles of Association of the Company as follows:

“(2) Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.”

- (iii) The words “not less than seven (7) clear days but not more than fourteen (14) clear days before the date of the general meeting” in the last sentence of Article 88 of the Articles of Association of the Company be deleted in its entirety and replaced by the following:

“provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.”

Notice of Annual General Meeting

(iv) Article 103 of the Articles of Association of the Company be deleted in its entirety and replaced by the following:

“103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

- (i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in five (5) per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or
- (vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

Notice of Annual General Meeting

- (2) A company shall be deemed to be a company in which a Director and/or his associate(s) own(s) five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his/their interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.
- (3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.
- (4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board.””

By Order of the Board

Li Kei Ling

Chairman

Hong Kong, 16 March 2004

Notice of Annual General Meeting

Notes:

- (a) The register of members of the Company will be closed from Monday, 26 April 2004 to Thursday, 29 April 2004 (both days inclusive), during which period no transfer of shares in the Company can be registered.
- (b) All transfer documents accompanied by the relevant share certificates must be lodged with the Company's Registrars in Hong Kong, Abacus Share Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 23 April 2004.
- (c) Any shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company.
- (d) To be valid, a form of proxy in the prescribed form together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's principal office in Hong Kong at Suites 3212-13, Shell Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong not less than 48 hours before the time fixed for holding the Meeting or any adjourned meeting.
- (e) Further details regarding resolutions set out in paragraphs 5 and 6 of this notice of the annual general meeting of the Company will be sent to the shareholders of the Company together with the Company's 2003 Annual Report.

Report of the Auditors



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

TO THE MEMBERS

DAWNRAYS PHARMACEUTICAL (HOLDINGS) LIMITED

(Incorporated in Cayman Islands with limited liability)

We have audited the financial statements on pages 38 to 69 which have been prepared in accordance with International Financial Reporting Standards.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong
16 March 2004

Consolidated Financial Statements

Consolidated Income Statement

Year ended 31 December 2003

	<i>Notes</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
TURNOVER	4	491,388	327,924
Cost of sales		<u>(285,485)</u>	<u>(155,617)</u>
Gross profit		205,903	172,307
Other revenue	4	867	527
Selling and distribution costs		(56,795)	(52,305)
Administrative costs		(26,095)	(10,643)
Other operating costs		<u>(10,511)</u>	<u>(8,767)</u>
PROFIT FROM OPERATING ACTIVITIES	5	113,369	101,119
Finance costs	6	<u>(945)</u>	<u>(521)</u>
PROFIT BEFORE TAX		112,424	100,598
Tax	10	<u>(3,996)</u>	<u>—</u>
PROFIT BEFORE MINORITY INTERESTS		108,428	100,598
Minority interests		<u>(406)</u>	<u>(479)</u>
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>108,022</u>	<u>100,119</u>
DIVIDENDS	11		
Interim		12,760	—
Proposed final		<u>29,840</u>	<u>69,245</u>
		<u>42,600</u>	<u>69,245</u>
EARNINGS PER SHARE			
Basic	12	<u>RMB0.1551</u>	<u>RMB0.1669</u>

Consolidated Financial Statements

Balance Sheets

As at 31 December 2003

	Notes	Group		Company	
		2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	115,914	49,978	652	—
Land-use-rights	14	14,123	9,135	—	—
Construction in progress	15	57,529	34,842	—	—
Deferred development costs	16	10,787	6,682	—	—
Interest in subsidiaries	17	—	—	100,175	—
		<u>198,353</u>	<u>100,637</u>	<u>100,827</u>	<u>—</u>
CURRENT ASSETS					
Inventories	18	54,342	54,592	—	—
Trade and notes receivables	19	153,797	68,421	—	—
Prepayments, deposits and other receivables	20	17,481	5,884	148,341	—
Time deposits with original maturity of more than three months		—	828	—	—
Cash and cash equivalents	21	134,521	41,475	74,215	—
		<u>360,141</u>	<u>171,200</u>	<u>222,556</u>	<u>—</u>
CURRENT LIABILITIES					
Trade and notes payables	22	142,232	57,744	—	—
Tax payable		4,934	—	—	—
Other payables and accruals	23	36,435	20,554	1,115	43
		<u>183,601</u>	<u>78,298</u>	<u>1,115</u>	<u>43</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>176,540</u>	<u>92,902</u>	<u>221,441</u>	<u>(43)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>374,893</u>	<u>193,539</u>	<u>322,268</u>	<u>(43)</u>
MINORITY INTERESTS		<u>989</u>	<u>938</u>	<u>—</u>	<u>—</u>
		<u>373,904</u>	<u>192,601</u>	<u>322,268</u>	<u>(43)</u>
CAPITAL AND RESERVES					
Share capital	24	84,880	—	84,880	—
Reserves	26	259,184	123,356	207,548	(43)
Proposed final dividend	11	29,840	69,245	29,840	—
		<u>373,904</u>	<u>192,601</u>	<u>322,268</u>	<u>(43)</u>

Li Kei Ling
Director

Zhang Jing Xing
Director

Consolidated Financial Statements

Statements of Changes in Equity

Year ended 31 December 2003

	Notes	Group		Company	
		2003	2002	2003	2002
		RMB'000	RMB'000	RMB'000	RMB'000
Issued share capital	24				
At beginning of year		—	—	—	—
Issue of shares		21,220	—	21,220	—
Capitalization of share premium		63,660	—	63,660	—
At end of year		84,880	—	84,880	—
Share premium	24				
At beginning of year		—	—	—	—
Issue of shares		148,263	—	148,263	—
Share issue expenses		(15,020)	—	(15,020)	—
Capitalization of share premium		(63,660)	—	(63,660)	—
At end of year		69,583	—	69,583	—
Contributed surplus	24/26				
At beginning of year		100,175	89,845	—	—
New loans from shareholders		—	10,330	—	—
Capitalization of loans from shareholders		—	—	100,175	—
At end of year		100,175	100,175	100,175	—
Statutory surplus reserve	26				
At beginning of year		11,722	2,600	—	—
Transfer from retained profits		11,115	9,122	—	—
At end of year		22,837	11,722	—	—
Exchange fluctuation reserve					
At beginning of year		—	—	—	—
Exchange realignment		823	—	666	—
At end of year		823	—	666	—

Consolidated Financial Statements

Statements of Changes in Equity (Cont'd)

Year ended 31 December 2003

	Notes	Group		Company	
		2003	2002	2003	2002
		RMB'000	RMB'000	RMB'000	RMB'000
Retained profits					
At beginning of year		11,459	15,914	(43)	—
Net profit/(loss) for the year		108,022	100,119	79,767	(43)
Transfer to statutory surplus reserve	26	(11,115)	(9,122)	—	—
Dividend pertaining to 2001 declared in 2002	11	—	(26,207)	—	—
Interim dividend	11	(12,760)	—	(12,760)	—
Proposed final dividend	11/30	(29,840)	(69,245)	(29,840)	—
At end of year		65,766	11,459	37,124	(43)
Total Reserves		259,184	123,356	207,548	(43)
Proposed dividend					
At beginning of year	11	69,245	—	—	—
Final dividend declared	11	(69,245)	—	—	—
Proposed final dividend	11/30	29,840	69,245	29,840	—
At end of year		29,840	69,245	29,840	—
Total		373,904	192,601	322,268	(43)

Consolidated Financial Statements

Consolidated Cash Flow Statement

Year ended 31 December 2003

	<i>Notes</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		112,424	100,598
Adjustments for:			
Interest expense	6	809	521
Interest income	4	(770)	(140)
Loss on disposal of property, plant and equipment	5	128	177
Depreciation	5	6,097	5,186
Amortization of deferred development costs	5	566	258
Amortization of land-use-rights	5	212	103
Gain on disposal of equity interest in a related company		—	(40)
Operating profit before working capital changes		119,466	106,663
(Increase)/decrease in inventories		250	(33,850)
Increase in trade and notes receivables		(85,376)	(24,304)
(Increase)/decrease in prepayments, deposits and other receivables		(1,889)	1,396
Increase in trade and notes payables		65,158	43,231
Increase/(decrease) in other payables and accruals		105	(6,822)
Decrease in amounts due to directors		—	(5,112)
Cash generated from operations		97,714	81,202
Income tax paid		(8,770)	—
Net cash inflow from operating activities		88,944	81,202

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Consolidated Cash Flow Statement (Cont'd)

Year ended 31 December 2003

	<i>Notes</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Net cash inflow from operating activities		88,944	81,202
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash received from matured time deposits with original maturity of more than three months		828	28,177
New time deposits with original maturity of more than three months		—	(828)
Purchases of property, plant and equipment		(59,792)	(36,814)
Proceeds from disposal of property, plant and equipment		138	1,006
Additions of deferred development costs		(4,671)	(1,632)
Additions of land-use rights		(5,200)	—
Purchases of an available-for-sale investment		—	(6,630)
Proceeds from disposal of an available-for-sale investment		—	6,670
Interest income		770	158
Net cash used in investing activities		(67,927)	(9,893)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	24	170,306	—
Share issue expenses		(15,020)	—
New bank loans		31,000	20,000
Repayment of bank loans		(31,000)	(43,800)
Interest paid		(897)	(555)
Dividend paid		(82,005)	(26,207)
Dividend paid to minority shareholders		(355)	—
New loans from shareholders		—	10,330
Net cash inflow/(outflow) from/(used in) financing activities		72,029	(40,232)
NET INCREASE IN CASH AND CASH EQUIVALENTS		93,046	31,077
Cash and cash equivalents at beginning of year		41,475	10,398
CASH AND CASH EQUIVALENTS AT END OF YEAR		134,521	41,475
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	61,706	41,475
Non-pledged time deposits with original maturity of less than three months when acquired	21	72,815	—
		134,521	41,475

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Notes to Financial Statements

31 December 2003

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 20 September 2002 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The companies comprising the Group underwent a reorganization on 21 June 2003 to rationalize the Group's structure in preparation for the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, pursuant to which the Company became the holding company within the Group (the "Group Reorganization").

The Group is principally engaged in the development, manufacture and sale of non-patented chemical medicines including cephalosporins in sterile bulk medicine and powder for injection forms, their intermediate pharmaceuticals and system specific medicines in the People's Republic of China (the "PRC"). Fortune United Group Limited, a company incorporated in the British Virgin Islands, is the holding company of the Company.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 11 July 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared by adopting uniting of interests method of accounting as a result of the Group Reorganization which involved entities under common control. Under this method, the Company has been treated as the holding company of its subsidiaries for the two years ended 31 December 2003 rather than from the date of acquisition of the subsidiaries. The consolidated results, changes in equity, cash flows and the consolidated balance sheets of the companies now comprising the Group have been prepared as if the current Group structure had been in existence throughout the two years, or from the respective dates of establishment/incorporation of the companies now comprising the Group, where this is a shorter period.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

All significant intra-group transactions and balances have been eliminated on consolidation.

Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Subsidiaries

A subsidiary is a company over which the Company has the power to govern its financial and operating policies so as to obtain benefits from its activities. A subsidiary is excluded from consolidation if it operates under severe long term restrictions which may impair its ability to transfer funds to the Company.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalized as an additional cost of the property, plant and equipment.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 years
Machinery and other equipment	5-10 years
Office equipment	5 years
Motor vehicles	5 years

The carrying values of property, plant and equipment are reviewed periodically in order to assess whether they are recorded in excess of their recoverable values, and where carrying values exceed these recoverable amount, assets are written down to their recoverable amount.

The gain or loss on disposal or retirement of property, plant and equipment recognized in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset at the time of disposal.

Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Land-use-rights

Land-use-rights are stated at cost less accumulated amortization. Land-use-rights are amortized on the straight-line basis over a period of 50 years.

Construction in progress

Construction in progress represents property, plant and equipment under construction and is stated at cost. The acquisition period of an asset includes the period when the asset is under construction, installation and testing. Cost comprises direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of the construction. Construction in progress is transferred to the appropriate category of plant and equipment when it is completed and ready for its intended use. No depreciation is provided on construction in progress until the asset is completed and is ready for its intended use.

Research and development costs

All research costs are charged to the income statement incurred.

Development costs incurred on projects to develop new products are capitalized and deferred only when the projects are clearly defined, the costs are separately identifiable and can be measured reliably, there is reasonable certainty that the projects are technically feasible and the products have commercial value. Development expenditures which do not meet these criteria are expensed when incurred.

Deferred development costs are stated at cost less accumulated amortization and any impairment losses. Amortization is calculated on the straight-line basis to write off the deferred development costs over the estimated commercial lives of the underlying products, subject to a maximum of 10 years, commencing from the date when the products are put into commercial production.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If any such indication exists, the recoverable amount will be estimated.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the income statement on the straight-line basis over the lease terms.

Trade and other receivables

Trade receivables, which generally have terms of about 60 days, are recognized and carried at original invoice amounts less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Prepayments, deposits and other receivables are recognized and carried at cost less allowance for any uncollectible amounts.

Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Trade and other payables

Liabilities for trade and other payables which are normally settled on terms of about 90 days are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Loans and borrowings

All loans and borrowings, which are interest-bearing and held to maturity, are initially recognized at cost, being the fair value of the consideration received, and subsequently measured at amortized cost.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, cost comprises direct materials, direct labour, subcontracting fees and an appropriate proportion of overheads.

Net realizable value is based on estimated selling price less all further costs expected to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Income taxes

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized.

Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income taxes (Cont'd)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable (greater than 50%) that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant is related to an expense item, it is recognized as income over the periods necessary to match them on a systematic basis to the costs which it is intended to compensate. Where the grant is related to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) revenue from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- (c) dividends, when the shareholders' right to receive payment is established.

Retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Accommodation benefits

Contributions to an accommodation fund administered by the Public Accumulation Funds Administration Centre are charged to the income statement as incurred.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

Foreign currencies

The books and records of the Company and Dawnrays International Company Limited ("Dawnrays International"), the immediate holding company of the other subsidiaries comprising the Group, are denominated in Hong Kong dollars. The books and records of the Company's subsidiaries located and operated in the PRC (the "PRC Subsidiaries") are maintained in Renminbi ("RMB"). The principal activities of the Group are transacted in RMB. Accordingly, the Group's functional and reporting currency is RMB.

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the appropriate rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of the Company and Dawnrays International denominated in foreign currencies are translated into RMB at the applicable rates of exchange ruling at the balance sheet date. The resulting differences are included in the exchange fluctuation reserve.

Consolidated Financial Statements

3. SEGMENT INFORMATION

The Group's turnover and profit for the two years ended 31 December 2003 were mainly derived from the sale of medicines by the PRC Subsidiaries to customers in the PRC. The principal assets employed by the Group are located in the PRC. Accordingly, no segmental analysis by business and geographical segments is provided.

4. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, net of value-added tax, after allowances for returns, trade discounts and various types of business tax and government surcharges where applicable. All significant intra-Group transactions are eliminated on consolidation.

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
<u>Turnover</u>		
Sale of goods	491,881	328,263
Less: Sales tax and government surcharges	(493)	(339)
	<hr/>	<hr/>
Turnover	491,388	327,924
	<hr/>	<hr/>
<u>Other revenue</u>		
Interest income from bank balances	770	140
Government grants	67	100
Others	30	287
	<hr/>	<hr/>
Other revenue	867	527
	<hr/>	<hr/>
Total revenue	492,255	328,451
	<hr/> <hr/>	<hr/> <hr/>

Consolidated Financial Statements

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	<i>Notes</i>	Group	
		2003	2002
		<i>RMB'000</i>	<i>RMB'000</i>
Auditors' remuneration		893	40
Cost of goods sold		285,485	155,617
Amortization of deferred development costs	16	566	258
Amortization of land-use-rights	14	212	103
Depreciation	13	6,097	5,186
Loss on disposal of property, plant and equipment		128	177
Operating lease rentals in respect of buildings		631	390
Staff costs (including directors' remuneration):			
Retirement costs	9	2,715	1,590
Accommodation benefits		1,348	551
Salaries and other staff costs		23,474	13,837
Total staff costs		27,537	15,978
Research and development costs		10,305	8,425

6. FINANCE COSTS

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans	897	477
Less: Interest capitalized	88	—
	809	477
Bank charges	136	44
	945	521

Consolidated Financial Statements

7. DIRECTORS' REMUNERATION

Details of directors' emoluments are as follows:

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Fees	<u>115</u>	<u>—</u>
Other emoluments:		
Salaries, allowances and benefits in kind	1,707	148
Pension scheme contributions	<u>28</u>	<u>8</u>
	<u>1,735</u>	<u>156</u>
	<u><u>1,850</u></u>	<u><u>156</u></u>

Fees include RMB115,000 (2002: Nil) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	<u>8</u>	<u>2</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, share options were granted to the directors for the subscription of 3,748,000 shares of the Company in respect of their services to the Group, further details of which are set out in note 25 to the financial statements. No value in respect of the share options granted during the year has been charged to the income statement, or is otherwise included in the above directors' remuneration disclosures.

Consolidated Financial Statements

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2002: one) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the two (2002: four) non-director, highest paid employees for the year are as follows:

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and benefits in kind	567	371
Performance related bonuses	—	—
Pension scheme contributions	18	31
	585	402

The remuneration of the highest paid, non-director employees fell within the nil to HK\$1,000,000 band for the two years ended 31 December 2003.

During the year, share options were granted to the two non-director, highest paid employees for the subscription of 1,696,000 shares of the Company in respect of their services to the Group, further details of which are included in the disclosures in note 25 to the financial statements. No value in respect of the share options granted during the year has been charged to the income statement, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

9. RETIREMENT BENEFITS AND ACCOMMODATION BENEFITS

In compliance with the Mandatory Provident Fund Ordinance ("MPF Ordinance"), the Company has participated in the MPF scheme, a defined contribution scheme managed by an independent trustee, to provide retirement benefits to its Hong Kong employees. Contributions to the MPF scheme are in accordance with the statutory limits prescribed by the MPF Ordinance.

As stipulated by the PRC state regulations, the PRC Subsidiaries participate in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retired date. The PRC Subsidiaries are required to make contributions to the local social security bureau at 20-22.5% of the previous year's average basic salaries within the geographical area where the employees are under employment with the PRC Subsidiaries. The Group has no obligation for the payment of pension benefits beyond the annual contribution as set out above.

According to relevant rules and regulations of the PRC, the PRC Subsidiaries and their employees are each required to make contributions to an accommodation fund at 7%-10% of the salaries and wages of the employees which is administered by Public Accumulation Funds Administration Centre. There is no further obligation on the part of the Group except for such contribution to the accommodation fund.

As at 31 December 2003, the Group had no significant obligation apart from the contributions as stated above.

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10. TAX

(a) Income tax expense

The income tax expense, all current, charged to the consolidated income statement for the year ended 31 December 2003 was as follows:

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Income tax expense	13,704	—
Tax refund	(9,708)	—
	3,996	—

No provision for Hong Kong profits tax has been made as the Group had no profits arising in Hong Kong during the year.

According to the Income Tax Law of the PRC, four subsidiaries of the Company, namely Suzhou Dawnrays Pharmaceuticals Co., Ltd (“Suzhou Dawnrays Pharmaceuticals”), Suzhou Dawnrays Chemical Co., Ltd (“Suzhou Dawnrays Chemical”), Suzhou Dawnrays Pharmaceutical Technology Co., Ltd (“Suzhou Dawnrays Technology”) and Shanghai Dawnrays Chemical Co., Ltd (“Shanghai Dawnrays Chemical”), which operate in approved economic development zones of the PRC, are exempted from corporate income tax of the PRC for the two years starting from the first profitable year of operation, after setting off losses carried forward, and are entitled to a 50% relief from corporate income tax of the PRC for the following three years. Suzhou Dawnrays Pharmaceuticals is in its third profitable year in 2003 and therefore the applicable income tax rate is 12%. Shanghai Dawnrays Chemical is in its second profitable year based on the income for statutory financial reporting purposes and, accordingly, no provision for income tax has been made in 2003. Suzhou Dawnrays Chemical and Suzhou Dawnrays Technology had no assessable profits and therefore, no provision for income tax has been made during the year.

No provision for deferred tax has been made as the net effect of all temporary difference is immaterial.

Consolidated Financial Statements

10. TAX (Cont'd)

(a) Income tax expense (Cont'd)

The reconciliation between tax expense and the product of accounting profit in the accompanying consolidated results of operation multiplied by the applicable income tax rate is as follows:

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Accounting profit in the accompanying consolidated income statement	112,424	100,598
Applicable income tax rate	12%	—
Tax at effective rate	13,491	—
Tax effect of income and expense items which are not assessable or deductible for income tax purpose	213	—
Current tax expenses	13,704	—

(b) Tax refund

Pursuant to a board resolution of Suzhou Dawnrays Pharmaceuticals dated 15 December 2003, Suzhou Dawnrays Pharmaceuticals declared an interim dividend of RMB71,190,000 to Dawnrays International pertaining to the period of 11 months ended 30 November 2003. Pursuant to a board resolution of Dawnrays International dated 18 December 2003, Dawnrays International would make an application to the relevant government authorities for approval to re-invest the aforesaid dividend of RMB71,190,000 into Suzhou Dawnrays Pharmaceuticals. Such application was submitted on 8 March 2004. According to the relevant PRC tax law, tax refund in relation to the aforesaid re-investment amounted to RMB9,708,000.

Consolidated Financial Statements

11. DIVIDENDS

	Company	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Dividend pertaining to the prior year declared in the year	69,245	26,207
Interim — HK\$0.015 (2002: N/A) per ordinary share	12,760	—
	82,005	26,207
Proposed final — HK\$0.035 (2002: N/A) per ordinary share	29,840	69,245

On 16 March 2004, the Company declared a final dividend for the year ended 31 December 2003, at HK\$0.035 per share, amounting to a total sum of HK\$28,000,000 (equivalent to approximately RMB29,839,600).

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for current year of RMB108,022,000 (2002: RMB100,119,000), and the weighted average 696,438,356 ordinary shares in issue during the year (2002: 600,000,000 ordinary shares on the assumption that the Group Reorganization was completed on 1 January 2002).

As the exercise price of outstanding share options is higher than the average fair value of the ordinary share during the year, the conversion to ordinary shares would increase earnings per share. The diluted earnings per share amount for the year ended 31 December 2003 has not been presented, as the share options outstanding during the year had an anti-dilutive effect on the basic earnings per share.

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13. PROPERTY, PLANT AND EQUIPMENT

	Group				Total RMB'000
	Buildings RMB'000	Machinery and other equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	
Cost:					
As at 1 January 2003	21,449	39,283	3,818	6,064	70,614
Additions	—	—	1,790	1,792	3,582
Transferred from construction in progress	20,453	47,572	544	148	68,717
Disposals	—	(171)	(57)	(1,052)	(1,280)
As at 31 December 2003	41,902	86,684	6,095	6,952	141,633
Accumulated depreciation:					
As at 1 January 2003	4,299	13,134	1,927	1,276	20,636
Provided for the year	998	3,796	603	700	6,097
Disposals	—	(69)	(42)	(903)	(1,014)
As at 31 December 2003	5,297	16,861	2,488	1,073	25,719
Net book value:					
As at 31 December 2003	36,605	69,823	3,607	5,879	115,914
As at 1 January 2003	17,150	26,149	1,891	4,788	49,978

Buildings with net book values of RMB3,500,000 as at 31 December 2003 were pledged to banks to obtain credit lines from banks, such credit lines had not been utilized as at 31 December 2003. The pledge was subsequently released by banks in January 2004.

Consolidated Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	<u>Company</u>
	Office equipment
	<i>RMB'000</i>
Cost:	
As at 1 January 2003	—
Additions during the year and as at 31 December 2003	652
Accumulated depreciation:	
As at 1 January 2003 and 31 December 2003	—
Net book value:	
As at 31 December 2003	652
As at 1 January 2003	—

14. LAND-USE-RIGHTS

	<u>Group</u>	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Cost:		
At beginning of year	9,726	4,127
Additions	5,200	5,599
At end of year	14,926	9,726
Accumulated amortization:		
At beginning of year	591	488
Provided for the year	212	103
At end of year	803	591
Net book value:		
At beginning of year	9,135	3,639
At end of year	14,123	9,135

Consolidated Financial Statements

15. CONSTRUCTION IN PROGRESS

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	34,842	2,771
Additions	91,404	38,686
Transferred to property, plant and equipment	(68,717)	(6,615)
	<hr/>	<hr/>
At end of year	<u>57,529</u>	<u>34,842</u>

16. DEFERRED DEVELOPMENT COSTS

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Cost:		
At beginning of year	6,976	2,634
Additions	4,671	4,342
	<hr/>	<hr/>
At end of year	<u>11,647</u>	<u>6,976</u>
Accumulated amortization:		
At beginning of year	294	36
Provided for the year	566	258
	<hr/>	<hr/>
At end of year	<u>860</u>	<u>294</u>
Net book value:		
At beginning of year	<u>6,682</u>	<u>2,598</u>
	<hr/>	<hr/>
At end of year	<u>10,787</u>	<u>6,682</u>

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17. INTERESTS IN SUBSIDIARIES

	Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Unlisted shares, at cost	100,175	—
Amounts due from subsidiaries – <i>note 20</i>	147,976	—
	<u>248,151</u>	<u>—</u>

Amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration/ and operations	Nominal value of issued shares/ paid up capital	Percentage of equity attributable to the Group	Principal activities
<i>Directly held</i>				
Dawnrays International Company Limited	British Virgin Islands	US\$100	100	Investment holding
<i>Indirectly held</i>				
Suzhou Dawnrays Pharmaceuticals Co., Ltd	People's Republic of China	US\$15,147,821	100	Manufacture and sale of pharmaceutical products
Shanghai Dawnrays Chemical Co., Ltd	People's Republic of China	US\$680,000	92	Manufacture and sale of intermediate pharmaceutical products
Suzhou Dawnrays Pharmaceutical Technology Co., Ltd	People's Republic of China	US\$480,413	100	Research and development of pharmaceutical products
Suzhou Dawnrays Chemical Co., Ltd	People's Republic of China	US\$3,667,452	100	Manufacture and sale of intermediate pharmaceutical products

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18. INVENTORIES

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	13,862	19,602
Work in progress	20,489	25,870
Finished goods	19,991	9,120
	<u>54,342</u>	<u>54,592</u>

19. TRADE AND NOTES RECEIVABLES

An aged analysis of the trade and notes receivables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables		
Outstanding balances with ages:		
Within 90 days	101,461	54,629
Between 91 to 180 days	3,937	5,666
Between 181 to 270 days	1,654	568
Between 271 to 360 days	566	238
Over one year	683	262
	<u>108,301</u>	<u>61,363</u>
Notes receivable		
Outstanding balances with ages:		
Within 90 days	34,247	7,568
Between 91 to 180 days	11,759	—
	<u>46,006</u>	<u>7,568</u>
	154,307	68,931
Less: Provision for bad and doubtful debts	510	510
	<u>153,797</u>	<u>68,421</u>

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20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Tax refund	9,708	—	—	—
Prepayments	5,476	4,797	—	—
Deposits and other debtors	2,297	1,087	365	—
Amounts due from subsidiaries	—	—	147,976	—
	<u>17,481</u>	<u>5,884</u>	<u>148,341</u>	<u>—</u>

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Cash and bank balances	61,706	41,475	6,401	—
Time deposits	72,815	—	67,814	—
Cash and cash equivalents	<u>134,521</u>	<u>41,475</u>	<u>74,215</u>	<u>—</u>

22. TRADE AND NOTES PAYABLES

An aged analysis of the trade and notes payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Outstanding balances with ages:		
Within 90 days	104,598	39,557
Between 91 to 180 days	30,867	14,767
Between 181 to 270 days	6,045	707
Between 271 to 360 days	283	1,794
Over one year	439	919
	<u>142,232</u>	<u>57,744</u>

Consolidated Financial Statements

23. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Other payables	34,678	19,865	—	—
Accruals	1,757	689	1,115	43
	<u>36,435</u>	<u>20,554</u>	<u>1,115</u>	<u>43</u>

24. SHARE CAPITAL

	Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Shares		
Authorized:		
10,000,000,000 (2002: 3,900,000) ordinary shares of HK\$0.1 each	<u>1,000,000</u>	<u>390</u>
Issued and fully paid:		
800,000,000 (2002: 1, nil paid) ordinary shares of HK\$0.1 each	<u>80,000</u>	<u>—</u>
Equivalent to RMB'000	<u>84,880</u>	<u>—</u>

The following movements in the Company's authorized and issued share capital took place during the period from 20 September 2002 (date of incorporation) to 31 December 2003:

- As at the date of incorporation of the Company on 20 September 2002, its authorized share capital was HK\$390,000 divided into 3,900,000 shares, one of which was allotted and issued, nil paid, to the subscriber to the memorandum and articles of association of the Company and was subsequently transferred to Fortune United Group Limited on 7 October 2002.
- By written resolutions of the sole shareholder of the Company passed on 21 June 2003, the authorized share capital of the Company was increased from HK\$390,000 to HK\$1,000,000,000 by the creation of an additional 9,996,100,000 shares.

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24. SHARE CAPITAL (Cont'd)

- (c) As at 31 December 2002, combined shareholders' equity includes interest-free shareholders' loans amounting to RMB100,175,000 of Dawnrays International. On 21 June 2003, Dawnrays International allotted and issued 98 shares of USD1.00 each to its then shareholders and thereby capitalized the shareholders loans of RMB100,175,000 due from Dawnrays International to its shareholders.

Pursuant to the Group Reorganization as set out in note 1 and as consideration for the acquisition by the Company of the entire issued capital of Dawnrays International from Fortune United Group Limited, on 21 June 2003, an aggregate of 999 shares were allotted and issued by the Company, credited as fully paid, to Fortune United Group Limited and the one nil paid share mentioned in (a) above.

- (d) On 9 July 2003, 200,000,000 shares were allotted and issued for cash at HK\$0.8 each by way of public offer and placing.
- (e) On 9 July 2003, 599,999,000 shares were allotted and issued as fully paid to Fortune United Group Limited by way of capitalizing a sum of HK\$59,999,900 standing to the credit of the share premium account.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 25 to the financial statements.

25. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include the Company's directors and other employees of the Group. The Share Option Scheme was adopted on 21 June 2003 and will remain in force for 10 years from that date.

The Company granted options on 11 November 2003 (the "Date of Grant") to 456 employees (including directors) to subscribe for 40,000,000 shares of the Company at exercise price of HK\$0.83 per share.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the existing issued share capital of the Company as at the date of this annual report ("Mandate Limit"). Accordingly, the maximum number of shares which may be granted under the Share Option Scheme shall not exceed 80,000,000 shares. The Company may, however, seek approval by its shareholders in general meeting to renew the Mandate Limit in accordance with the Listing Rules.

The maximum number of shares issued and to be issued upon exercise of options granted under the Share Option Scheme and any other share option schemes of the Company to any Eligible Person (including cancelled, exercised and outstanding options), in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue of the Company. Any further grant of options in excess of such limit must be separately approved by shareholders with such Eligible Person and his associates abstaining from voting.

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25. SHARE OPTION SCHEME (Cont'd)

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period commencing on such date on or after the date on which the option is granted as the Board may determine in granting the option and expiring at the close of business on such date as the Board may determine in granting the option but in any event shall not exceed ten years from the date of grant.

A non-refundable remittance of HK\$10 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the option.

The subscription price of a share in respect of option granted shall be at least the higher of (a) the closing price of the Company's shares on the Stock Exchange of Hong Kong Limited, as stated in the Stock Exchange's daily quotations sheet on the relevant offer date in respect of such option; (b) the average of the closing prices of the Company's shares on the Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the option; and (c) the nominal value of the ordinary shares of the Company.

The following share options were granted under the Scheme during the year:

	Number of share options granted during the year	Number of share options lapsed during the year	Number of share options exercised during the year	Number of share options as at 31 December 2003	Date of grant	Exercise period	Exercise price HK\$
Executive Directors:							
Ms. LI Kei Ling	700,000	—	—	700,000	11 November 2003	11 November 2004 to 10 November 2007	0.83
Mr. HUNG Yung Lai	700,000	—	—	700,000	11 November 2003	11 November 2004 to 10 November 2007	0.83
Mr. ZHANG Jing Xing	1,500,000	—	—	1,500,000	11 November 2003	11 November 2004 to 10 November 2007	0.83
Mr. LAM Kam Wah	848,000	—	—	848,000	11 November 2003	11 November 2004 to 10 November 2007	0.83
Other employees:							
In aggregate	36,252,000	(84,000)	—	36,168,000	11 November 2003	11 November 2004 to 10 November 2007	0.83
	<u>40,000,000</u>	<u>(84,000)</u>	<u>—</u>	<u>39,916,000</u>			

At the balance sheet date, the Company had 39,916,000 share options outstanding under the Scheme, which represented approximately 5% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 39,916,000 additional ordinary shares of the Company, additional share capital of HK\$3,991,600 and share premium of HK\$29,138,680 (before issue expenses).

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26. RESERVES

The amounts of the Group's reserves and the movement therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 40 and 41 of the financial statements.

(i) Contribution surplus

The contribution surplus of the Group represents the difference between the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired pursuant to the Group Reorganization as set out in note 1, over the nominal value of the Company's shares issued in exchange therefor. The contribution surplus of the Company represents the excess of the then consolidated net assets of the subsidiaries acquired pursuant to the Group Reorganization, over the nominal value of the Company's shares issued in exchange therefor.

(ii) Statutory surplus reserve ("SSR")

In accordance with the Company Law of the PRC and the articles of association of the PRC Subsidiaries, the PRC Subsidiaries are each required to allocate 10% of its profit after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserve ("SSR") until such reserve reaches 50% of the registered capital of the PRC Subsidiaries. Part of the SSR may be converted to increase paid-up capital, provided that the remaining balance after the capitalization is not less than 25% of the registered capital.

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27. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group is exposed to market risk, including primarily changes in interest rates. The Group does not hold or issue derivative financial instruments for trading purposes.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing bank loans and borrowings.

The Group does not hedge interest rate fluctuations.

Exchange rate risk

The Group did not have significant exposure to market risk for changes in foreign currency exchange rates for the year ended 31 December 2003.

Credit risk

Credit risk arising from the inability of a counterpart to meet the terms of the Group's financial instrument contracts is generally limited to the amounts, if any, by which the counterpart's obligations exceed the obligations of the Group. The Group minimizes its exposure to credit risk by only dealing with counterparts with acceptable credit ratings.

Net fair values

The aggregate net fair values of the financial assets and financial liabilities of the Group are not materially different from their carrying amounts.

Credit risk exposures

The Group's maximum exposure to credit risk (not taking into account the value of any collateral or other securities held) in the event that the counterparts fail to perform their obligations as at 31 December 2003 in relation to each class of recognized financial assets is the carrying amount of those assets as indicated in the balance sheets.

Significant concentrations of credit risk

Concentration of credit risk exists when changes in economic, industrial or geographic factors similarly affect groups of counterparts whose aggregate credit exposure is significant in relation to the Group's total credit exposure. Significant concentration of credit risk arises from exposure to substantial amounts due from hospitals and medical institutions operating in the PRC.

Consolidated Financial Statements

28. COMMITMENTS

(a) Lease commitments

At 31 December 2003, the Group had total future minimum lease rental payable under non-cancellable operating leases expiring as follows:

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Within one year	935	324	439	—
In the second to fifth years, inclusive	2,404	1,294	814	—
After five years	1,295	1,618	—	—
	<u>4,634</u>	<u>3,236</u>	<u>1,253</u>	<u>—</u>

(b) Capital commitments

	Group	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Contracted, but not provided for: plant and machinery	<u>24,967</u>	<u>21,230</u>
Authorized, but not contracted for: plant and machinery	<u>78,979</u>	<u>164,920</u>
	<u>103,946</u>	<u>186,150</u>

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29. RELATED PARTY TRANSACTION

The Group had the following related party transaction during the year ended 31 December 2003:

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Non-recurring transaction:				
Rental paid to Sing Lee Pharmaceutical Import & Export Co., Limited for lease of office premises	<u>319</u>	<u>—</u>	<u>319</u>	<u>—</u>

Sing Lee Pharmaceutical Import & Export Co., Limited is a company equally owned by Ms. Li Kei Ling and Mr. Hung Yung Lai.

30. POST BALANCE SHEET EVENTS

On 16 March 2004, the Company declared a final dividend for the year ended 31 December 2003, at HK\$0.035 per share, amounting to a total sum of HK\$28,000,000 (equivalent to approximately RMB29,839,600).

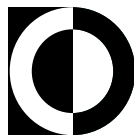
31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 16 March 2004.

Four Years Financial Summary

The summary of the results and the assets and liabilities of the Group for the three years ended 31 December 2002 are extracted from the Accountants' Report included in the Prospectus of the Company dated 30 June 2003.

	Year ended 31 December			
	2003	2002	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RESULTS				
TURNOVER	491,388	327,924	176,718	58,508
Cost of sales	(285,485)	(155,617)	(80,350)	(25,462)
Gross profit	205,903	172,307	96,368	(33,046)
Other revenue	867	527	1,588	2,073
Selling and distribution costs	(56,795)	(52,305)	(36,387)	(23,451)
Administrative costs	(26,095)	(10,643)	(5,591)	(6,713)
Other operating costs	(10,511)	(8,767)	(5,110)	(2,115)
PROFIT FROM OPERATING ACTIVITIES	113,369	101,119	50,868	2,840
Finance costs	(945)	(521)	(2,165)	(2,719)
PROFIT BEFORE TAX	112,424	100,598	48,703	121
Tax	(3,996)	—	—	—
PROFIT BEFORE MINORITY INTERESTS	108,428	100,598	48,703	121
Minority interests	(406)	(479)	(435)	96
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	108,022	100,119	48,268	217
ASSETS, LIABILITIES AND MINORITY INTERESTS				
TOTAL ASSETS	558,494	271,837	168,355	120,359
TOTAL LIABILITIES	(183,601)	(78,298)	(59,537)	(60,460)
MINORITY INTERESTS	(989)	(938)	(459)	(920)
NET ASSETS	373,904	192,601	108,359	58,979



DAWNRAYS PHARMACEUTICAL (HOLDINGS) LIMITED

東瑞製藥(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

FORM OF PROXY FOR ANNUAL GENERAL MEETING — 29TH APRIL, 2004

I/We (Note 1) _____
of _____

being the registered holder(s) of (Note 2) _____ shares of HK\$0.1 each in the capital of

Dawnrays Pharmaceutical (Holdings) Limited (the "Company"), HEREBY APPOINT (Note 3) _____

of _____

or failing him, the Chairman of the meeting as my/our proxy to attend the Annual General Meeting of the Company to be held at Plaza 4, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Thursday, 29th April, 2004 at 10:00 a.m. and at any adjournment thereof, to vote for me/us as hereunder indicated, or if no such indication is given, as my/our proxy thinks fit.

RESOLUTIONS	FOR(Note 4)	AGAINST(Note 4)
1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the year ended 31st December, 2003.		
2. To declare a final dividend.		
3(I). To re-elect Ms LI Kei Ling as director and authorise the board of directors to fix her remuneration.		
3(II). To re-elect Mr HUNG Yung Lai as director and authorise the board of directors to fix his remuneration.		
3(III). To re-elect Mr ZHANG Jing Xing as director and authorise the board of directors to fix his remuneration.		
3(IV). To re-elect Mr LAM Kam Wah as director and authorise the board of directors to fix his remuneration.		
3(V). To re-elect Mr LI Tung Ming as director and authorise the board of directors to fix his remuneration.		
3(VI). To re-elect Mr XU Kehan as director and authorise the board of directors to fix his remuneration.		
3(VII). To re-elect Mr PAN Xue Tian as director and authorise the board of directors to fix his remuneration.		
3(VIII). To re-elect Mr LEE Cheuk Yin Dannis as director and authorise the board of directors to fix his remuneration.		
4. To re-appoint Ernst & Young as Auditors of the Company and authorise the board of directors to fix their remuneration.		
5(A). Ordinary resolution no. 5(A) set out in the notice of the Annual General Meeting (to give a general mandate to the directors to issue shares in the Company).		
5(B). Ordinary resolution no. 5(B) set out in the notice of the Annual General Meeting (to give a general mandate to the directors to repurchase shares in the Company).		
5(C). Ordinary resolution no. 5(C) set out in of the notice of the Annual General Meeting (to extend the general mandate to the directors to issue shares in the Company).		
6. To approve the amendments to the Articles of Association of the Company.		

Dated this _____ day of _____ 2004 Signature (Note 5) _____

Notes:

- Full name(s) and address(es) to be inserted in BLOCK CAPITALS.
- Please insert the number of shares of HK\$0.1 each registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the capital of the Company registered in your name(s).
- Please insert the name and address of the proxy desired. If no name is inserted, the Chairman of the meeting will act as your proxy. A proxy need not be a member of the Company but must attend the meeting in person to represent you.
- Important: If you wish to vote for any of the resolution, tick in the appropriate box marked "For". If you wish to vote against any of the resolution, tick in the appropriate box marked "Against". Failure to tick a box will entitle your proxy to cast your vote in respect of such resolution at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the meeting other than those referred to above.
- This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.
- In the case of joint holders of any share, any one of such holders may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, the holder whose name stands first in the register of members of the Company shall alone be entitled to vote in respect of that share.
- To be valid, this form of proxy and the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the Company's principal office in Hong Kong at Suites 3212-13, Shell Tower, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting. Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting convened and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- Any alteration made to this form of proxy must be initialled by the person who signs it.