



DAWNRAYS PHARMACEUTICAL (HOLDINGS) LIMITED

東瑞製葯（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

**INTERIM REPORT
FOR THE SIX MONTHS ENDED
30 JUNE 2003**

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2003

The board of Directors (“Board”) of Dawnrays Pharmaceutical (Holdings) Limited (the “Company”) is pleased to announce the unaudited combined results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2003 (the “Reported Period”), together with the unaudited comparative figures for the corresponding period in 2002, as follow:

	<i>Note</i>	For the six months ended 30 June	
		2003 Rmb'000 Unaudited	2002 Rmb'000 Unaudited
Turnover		233,723	153,059
Profit from operating activities		54,344	50,644
Finance costs		(712)	(476)
Profit before income tax		53,632	50,168
Income tax expense		(6,329)	—
Profit before minority interests		47,303	50,168
Minority interests, net of taxes		(254)	(232)
Net profit attributable to shareholders		47,049	49,936
Interim dividend		12,720	
Earnings per share - basic	<i>1</i>	Rmb0.0784	Rmb0.0832
Interim dividend per share		HK\$0.015	

Notes:

- The calculation of basic earnings per share for each of the six months ended 30 June 2003 is based on the unaudited combined profit attributable to shareholders of approximately Rmb47,049,000 (unaudited combined profits attributable to shareholders for the six months ended 30 June 2002: approximately Rmb49,936,000) and on the assumption that 600,000,000 shares had been in issue throughout the periods under review, comprising 1,000 shares in issue as at 30 June 2003 and 599,999,000 shares to be issued pursuant to the Capitalisation Issue.
- The Combined Statement of Income, Combined Cashflow Statement and Combined Statement of Changes in Equity of the Group for the six months ended 30 June 2003, and the Combined Balance Sheet as at 30 June 2003 of the Group, all of which are unaudited, along with the selected explanatory notes, are set out on pages 13 to 26 of this report.

INTERIM DIVIDEND

The Board of Directors has resolved to declare an interim dividend of HK\$0.015 per share for the year ending 31 December 2003, amounting to a total sum of approximately HK\$12,000,000 (equivalent to Rmb12,720,000).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 21 October 2003 to Friday, 24 October 2003 (both days inclusive), during which period no transfer of shares will be registered.

Dividend warrants will be despatched to shareholders on or about Thursday, 30 October 2003. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Registrars in Hong Kong, 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 Monday, 20 October 2003.

BUSINESS REVIEW AND PROSPECTS

Business Review

1. Business overview

There has been a growing demands for the anti-infective drugs and the system specific medicines manufactured by the Group. The Group's anti-infective drugs, which are mainly third-generation cephalosporins, are widely applied in the treatment of different microbial infections. Demands for anti-infective drugs have been growing strongly over the years. System specific medicines manufactured by the Group are mainly used in the treatment of common diseases and frequent encountered diseases in the cardiovascular system, digestive system, endocrine system and urinary system. Demands for these drugs have been growing steadily.

By capitalizing on its technology, quality and cost advantages, the Group achieved a strong growth last year. According to the "China Medical Statistical Yearbook 2002" issued by State Economic and Trade Commission, PRC (中華人民共和國國家經濟貿易委員會) ("SETC"), among the 1,463 chemical drug pharmaceutical enterprises, Suzhou Dawnrays Pharmaceuticals Co., Ltd, a principal subsidiary of the Company, ranked 157th in terms of assets, 69th in terms of sales, and 26th in terms of profits. The market share of its principal products expanded significantly.

During the first half of 2003, where the Group's operations have been affected by SARS, the government requested the various large hospitals to enhance inventory level for various drugs. Sales of pharmaceuticals were boosted in the short term. However, with a drastic fall in the number of out-patients and inmates, demands for drugs fell sharply. The Group continued to consolidate its competitive advantages in respect of technology, quality and cost. Efforts were devoted to expand its market share, thereby securing relatively higher rate of growth. During the first half of 2003, the Company realized sales income of Rmb234 million, representing an increase of 52.7% compared with Rmb153 million of the corresponding period in the previous year.

According to “醫葯工業簡報” issued by 中國化學制葯工業協會, Suzhou Dawnrays Pharmaceuticals Co., Ltd ranked 37th among the major pharmaceutical enterprises in the PRC by sales income, and 24th by total profit for the Reported Period.

2. *Production operation*

In the Reported Period, the Group continued to focus itself in market development so as to increase its market share. There were relatively greater potential in the growth of demands for powder for injection forms. However, the production capacities for its workshop for the production of cephalosporin medicines in powder for injection form were basically fully utilised during the Reported Period which in turn restricted the growth in sales. To cope with the above, the Group continued to optimize its production process and production management to maximize production capacities to satisfy market demands. Total output for cephalosporin medicines in powder for injection form amounted to 26,510,000 units, representing an increase of 69.6% over 15,630,000 units of the corresponding period in the previous year. Sales of cephalosporins in powder for injection form was Rmb105,335,600, representing an increase of 24.5% as compared with the corresponding period in the previous year.

The new bulk medicine workshop commenced operation in the first quarter of 2003. The Group fully leveraged on the additional capacity and expanded production of bulk medicine on an extensive scale. In the Reported Period, a total of 106.94 tonnes of bulk medicine was produced, which was 4.4 times growth over 19.67 tonnes of the corresponding period in the previous year, whereas the utilization rate of the new bulk medicine workshop soon exceeded 80%. Not only has the Group consolidated its leading position in the market of its cefoperazone sodium, but also rapidly established the market share for ceftriaxone sodium by capitalizing on its brand advantage. Demand for ceftriaxone sodium, which was just launched in the fourth quarter last year, has been huge. The Group established itself in the market on the bases of its quality and cost advantages. Its market share in relation to ceftriaxone sodium bulk medicine has grown to over 25% within just a few months, ranking top three in the PRC domestic market. During the Reported Period, the Group produced 66.3 tonnes of ceftriaxone sodium whereas total national output of ceftriaxone sodium in the previous year was 378 tonnes according to “China Statistical Year Book 2002” (2002年中國醫葯統計年報) issued by SETC. Sales of bulk medicines recorded by the Group during the Reported Period was Rmb111,491,000, representing a growth of 88.47% compared with corresponding period in the previous year, and accounted for 47.7% of total sales (corresponding period in the previous year: 38.65%)

Output of preparation medicines in oral form was 36,450,000 tablets/capsules during the Reported Period, which increased by 1.02 times over 18,060,000 tablets/capsules of the corresponding period in the previous year. Sales of preparation medicines in oral form was Rmb16,896,400 during the Reported Period, an increase of 82% as compared with corresponding period in the previous year.

3. *R&D*

The Group placed emphasis in the R&D of anti-infective drugs and system specific medicines in order to expand the product lines, increase or consolidate upstream product chains. During the first half of 2003, the Group succeeded in the R&D and launched two anti-infective drugs, sparfloxacin lactate and ceftazidime. It is expected that production permits for a medicine for the treatment of gastric ulcers will be obtained in the third quarter of 2003. All such products will gradually become the new impetus for the growth of the Group. Thirteen R&D projects, including a fourth generation cephalosporin, are currently being systematically carried out as planned. The sustaining profitability of our Group is strongly secured by continuous R&D on new products and technology advancement on the existing ones.

4. *The expansion of production facilities of Suzhou Dawnrays Pharmaceuticals Co., Ltd and establishment of a production plant for Suzhou Dawnrays Chemical Co., Ltd ("Phase II Construction")*

The Group's Phase II construction has been carried out systematically under the various project plans and planning arrangements of engineering budgets. Tenders for the management of construction installations and centralized purchases of engineering materials are now being implemented. The new bulk medicine workshop with six production lines and annual production capacity of 240 tonnes was completed and put into production in the first quarter of 2003. The main complex for the new workshop for the production of cephalosporin medicines in powder for injection forms with 12 production lines and annual production capacity of 240 million vials is basically completed. Three-fourth of the total equipment installation works has been completed. Equipment testing and system commissioning will be completed in the fourth quarter this year. It will be put into production in the fourth quarter this years. Structural engineering and civil engineering for the main complex of a new production workshop with one production line for system specific medicine with annual capacity of 20 tonnes is now undergoing. Equipment testing and system commissioning will take place in December 2003. The Suzhou Dawnrays Chemical Co. Ltd project is currently progressing smoothly as planned, and has completed 80% of the civil engineering works and 50% of the installation works.

PROSPECTS

Despite keen competitions and impact of SARS in the first half year of 2003, the result of the Group in the Reported Period was still encouraging. This was mainly attributable to the efforts devoted by the Group in the strengthening of antibiotics as a solid profit foundation, and actively developing system specific medicines, thus enhancing the profit level. The Group's principal product, cephalosporin, has been the most popular medicine within its category in the PRC. According to the statistics of SETC, in 2002, ceftriaxone sodium, cefoperazone sodium and sulbactam sodium, ceftazidime were among the top six drugs most frequently used in major hospitals. Cefotaxime sodium and cefoperazone sodium were among the top 30. Demands for ceftriaxone sodium will tend to be stable, whereas hospital medication of cefoperazone sodium and sulbactam sodium and cefoperazone sodium in 2002 increased by 30.58% and 46.84% over the previous year respectively. It is anticipated such demand will still record substantial growth during this year. Ceftazidime has been growing by more than 20% over the previous year at an obvious upward trend. Various cephalosporin products of the Group have adopted our core technology, which has been enjoying obvious competitive edge. It is anticipated that sales will enjoy substantial growth. However, sales of medicine in powder for injection form will continue to be subject to production capacity limit until commencement of a new workshop for the production of powder for injection in the fourth quarter of this year. Thus, priority will be given to achieve a breakthrough in the sales of bulk medicines. With the increase in the proportion of the sales of bulk medicines, as well as intensive competitions, profit margin will have to face with pressure.

The Group is currently integrating sales resources and strengthening market expansions on the system specific medicines. Amlodipine besylate, which has just been launched last year, as well as the medicine for the treatment of gastric ulcers to be launched this year, are both international generic medicines. Following the expansion of marketing and promotion activities, it is believed that good results will be achieved. The Group strives to maintain the overall margin at a stable level.

The Company was successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 11 July 2003. This will certainly enhance the Group's brandname and management platform. Following the application of the listing proceeds into the Group's Phase II construction and R&D projects and sales network expansion, the production capacity of the Group will increase significantly, the capabilities in R&D and innovations will be strengthened, and the advantages enjoyed over sales and marketing will be consolidated and enhanced. By capitalizing on its technology, quality and cost advantages, the Group is confident that it will continuously provide added values to customers and shareholders in the long term.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Sales and gross profit

During the Reported Period, the Group recorded sales income of Rmb233,723,000, representing an increase of 52.70% as compared with the corresponding period in the previous year. Gross profit was Rmb96,080,000, an increase of 17.26% as compared with corresponding period in the previous year. Gross profit margin was 41.11% (corresponding period in the previous year: 53.53%). 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. The Group will continue to optimize production technology, strengthen process management, and reduce material costs, with the effect that there have been obvious reductions in the unit costs of the products.

Expenses

Total expenses incurred during the Reported Period amounted to Rmb42,609,000, an increase of 33.27% over the corresponding period of the previous year. Total expenses as a percentage of sales reduced from 20.89% of the corresponding period in the previous year to 18.23% of the Reported Period.

Of which, selling and distribution costs amounted to Rmb25,976,000, an increase of 14.59% over the corresponding period of the previous year. Selling and distribution cost as a percentage of sales reduced from 14.81% of the corresponding period in the previous year to 11.11% of the Reported Period.

Administrative costs and other operating costs amounted to Rmb15,921,000, an increase of 80.39% over the corresponding period in 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 our Hong Kong administrative office (which was set up in the second half year of 2002), and increased research and development expenditures. Financial cost amounted to Rmb712,000, an increase of 49.58%.

Profit attributable to Shareholders and income tax

During the Reported Period, profit attributable to Shareholders amounted to Rmb47,049,000, a decrease of 5.78% over that of the corresponding period in the previous year. Net profit margin was 20.13% (corresponding period last year: 32.63%). The reduction in net profit margin was, mainly due to the fact that Suzhou Dawnrays Pharmaceuticals Co., Ltd commenced to pay income tax during the Reported Period. Discounting the tax impact, the Group achieved an improved profit before income tax from Rmb50,168,000 of corresponding period last year to Rmb53,632,000 of the Reported Period, an increase of 6.9%.

In 2003, Suzhou Dawnrays Pharmaceuticals Co., Ltd started to be subject to its 50% tax exemption at a tax rate of 12%. Income tax expense for the Reported Period amounted to Rmb6,329,200. 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.

Cashflow

The cashflow of the Group in the past years 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. Benefiting from the sound financial strategy persistently adopted by the Group, 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 similar principles of efficiency, aiming at low level of investment for major projects. With respect to capital expenditures on constructions of production facilities, such projects were designed to improve existing technological level at a value-for-money manner. Tenders for major construction projects will be invited from the public, so as to strictly control estimation, budget and finalisation of accounts.

- 1) Net cashflows from operating activities were Rmb76,512,000 during the Reported Period.
- 2) Expenditures on construction projects and purchases of fixed assets amounted to Rmb33,978,000.
- 3) Profit distributions amounted to Rmb69,245,000.

Whilst satisfying increase in operating expenses, the Group fully commenced the Phase II construction. The profitability of the Group is sound and its cashflow condition has been good.

Liquidity, financial resources and capital structure

As at 30 June 2003, the Group's current assets amounted to approximately Rmb187,828,000, whilst current liabilities was approximately Rmb165,378,000. Net current assets were approximately Rmb22,450,000.

As at 30 June 2003, the Group has aggregate bank facilities of approximately Rmb325,000,000 of which approximately Rmb90,844,000 was utilized (in relation to short term bank loans of Rmb6,000,000 million and notes payable of approximately Rmb84,844,000).

Approximately Rmb40,000,000 of the bank facility was secured over certain of the Group's properties and Rmb6,000,000 of the bank loans borrowed by a subsidiary of the Group was guaranteed by another subsidiary of the Group.

Short term bank loans were at fixed interest rate during the term of the loans, and bore interest at 4.536% per annum. All short term bank loans are repayable within one year.

The debt ratio (defined as interest bearing loans and borrowings over total assets) of the Group as at 30 June 2003 was approximately 2%.

Interest capitalized by the Group in relation to construction projects during the Reported Period was approximately Rmb36,000.

As at 30 June 2003, the Group's capital commitments amounted to approximately Rmb120,507,000 which will be funded by proceeds from listing.

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 top management.

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

The Group's monetary assets and liabilities are normally denominated in Renminbi.

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 six months ended 30 June 2003.

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 30 June 2003, the Group employed approximately 600 employees (30 June 2002: approximately 420 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 reported period were approximately Rmb11,187,000 (six months ended 30 June 2002: Rmb6,252,000).

Charge on assets

As at 30 June 2003, buildings and machinery and equipment with net book values of approximately Rmb3,690,000 and Rmb11,091,000 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".

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

Segmental information

The Group conducts its business in PRC within one business segment and within one geographical segment. Accordingly, no segment information is presented.

Contingent liabilities

As at 30 June 2003, the Group had no material contingent liabilities.

DISCLOSURE OF INTEREST

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

As the shares of the Company were listed on the Main Board of the Stock Exchange on 11 July 2003, as at 30 June 2003, none of the Directors and chief executive of the Company who had an interest and short position in shares, underlying shares or debenture of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") was required (a) to notify to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interest 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 notify the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd (the "Listing Rules").

As at the date of this 2003 interim 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 were as follow:

(i) Interests in the Company

Name of Director	Capacity/ Nature of interest	Number of ordinary shares of HK\$0.10 each (Note 1)	Approximate percentage of shareholding
Ms. Li Kei Ling	Interest of controlled corporations	552,000,000 (L) (Note 2)	69%
Mr. Hung Yung Lai	Interest of controlled corporations	552,000,000 (L) (Note 3)	69%

(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 <i>(Note 1)</i>	Approximate percentage of shareholding
Fortune United Group Limited	Ms. Li Kei Ling	Interest of a controlled corporation	2 (L) <i>(Note 4)</i>	50%
Fortune United Group Limited	Mr. Hung Yung Lai	Interest of a controlled corporation	2 (L) <i>(Note 5)</i>	50%

Notes:

1. The letter "L" denotes a long position in shares.
2. 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.
3. 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.
4. 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.
5. 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.

(b) Interests of the substantial shareholders in the Company

As the shares of the Company were listed on the Main Board of the Stock Exchange on 11 July 2003, as at 30 June 2003, no interest or short positions of the substantial shareholders, (not being a Director or chief executive of the Company) in the shares and underlying shares of the Company are required to be recorded in the register required to be kept under section 336 of the SFO.

As at the date of this 2003 interim report, the following substantial 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 10% 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:

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	552,000,000 (L) (Note 4)	69%

Notes:

1. The letter "L" denotes a long position in shares.
2. 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.
3. 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.
4. These shares are beneficially owned by Fortune United Group Limited which is owned as to 50% by Hunwick International Limited, a company wholly owned by Mr. Hung Yung Lai. 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 as mentioned in Note 3 above.

(c) Interests of other persons in the Company

As the shares of the Company were listed on the Main Board of the Stock Exchange on 11 July 2003, as at 30 June 2003, no interest or short position of any person or company (not being a Director of a chief executive or a substantial shareholder of the Company) in the shares or underlying shares of the Company are required to be recorded in the register required to be kept under section 336 of the SFO.

As at the date of this 2003 interim report, there are 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. A summary of the principal terms and conditions of the share option scheme are set out in the section headed "Share Option Scheme" in Appendix IV of the prospectus dated 30 June 2003 issued by the Company.

As at 30 June 2003, no option has been granted by the Company pursuant to the share option scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

None of the Directors and chief executive of the Company nor their spouses or children under 18 years of age had any right to acquire shares in the Company or had exercised such right for the period under review.

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 six months ended 30 June 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company was listed on Main Board of The Stock Exchange on 11 July 2003. Thus, during the Reported Period, the Company was not subject to compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

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 Professor Wang Gui Guo (independent non-executive director) and Pan Xue Tian (independent non-executive director). The chairman of the audit committee is Professor Wang Gui Guo.

The audit committee has reviewed this unaudited interim results for the six months ended 30 June 2003.

COMBINED STATEMENT OF INCOME (UNAUDITED)

		For the six months ended 30 June	
		2003	2002
		<i>Rmb'000</i>	<i>Rmb'000</i>
		(Unaudited)	(Unaudited)
	<i>Note</i>		
Turnover	3	233,723	153,059
Cost of Sales		<u>(137,643)</u>	<u>(71,121)</u>
Gross profit		96,080	81,938
Other revenue	3	161	201
Selling and distribution costs		(25,976)	(22,669)
Administrative costs		(10,966)	(4,973)
Other operating costs		<u>(4,955)</u>	<u>(3,853)</u>
Profit from operating activities		54,344	50,644
Finance costs	3	<u>(712)</u>	<u>(476)</u>
Profit before income tax		53,632	50,168
Income tax expense	5	<u>(6,329)</u>	<u>—</u>
Profit before minority interests		47,303	50,168
Minority interests, net of taxes		<u>(254)</u>	<u>(232)</u>
Net profit attributable to shareholders		<u>47,049</u>	<u>49,936</u>
Dividend	6	<u>69,245</u>	<u>15,873</u>
Earnings per share - Basic	7	<u>Rmb0.0784</u>	<u>Rmb0.0832</u>

COMBINED BALANCE SHEET

		30 June	31 December
		2003	2002
	<i>Note</i>	Rmb'000	Rmb'000
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Property, plant and equipment		70,175	49,978
Land-use-rights		9,062	9,135
Construction in progress		62,488	34,842
Deferred development costs		7,066	6,682
		<u>148,791</u>	<u>100,637</u>
Current assets			
Cash and cash equivalents		20,148	41,475
Time deposits with original maturity of more than three months		—	828
Trade and notes receivables	8	87,944	68,421
Prepayments, deposits and other receivables		18,788	5,884
Inventories	9	60,948	54,592
		<u>187,828</u>	<u>171,200</u>
TOTAL ASSETS		<u><u>336,619</u></u>	<u><u>271,837</u></u>
EQUITY AND LIABILITIES			
Current liabilities			
Interest-bearing loans and borrowings	10	6,000	—
Trade and notes payables	11	119,978	57,744
Accrued liabilities and other payables		31,116	20,554
Income tax payable		3,664	—
Due to related company	12	4,620	—
		<u>165,378</u>	<u>78,298</u>
Net current assets		<u>22,450</u>	<u>92,902</u>
Total assets less current liabilities		<u>171,241</u>	<u>193,539</u>
Minority interests		<u>836</u>	<u>938</u>
Net Assets		<u>170,405</u>	<u>192,601</u>
Equity			
Share capital	13	—	—
Reserves	14	170,405	192,601
Shareholders' Fund		<u>170,405</u>	<u>192,601</u>
TOTAL EQUITY AND LIABILITIES		<u><u>336,619</u></u>	<u><u>271,837</u></u>

CONDENSED COMBINED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	2003				2002	
	Share Capital (unaudited) <i>Rmb'000</i> <i>Note</i>	Share Premium (unaudited) <i>Rmb'000</i> <i>Note</i>	Statutory Surplus Reserve (unaudited) <i>Rmb'000</i>	Retained Earnings (unaudited) <i>Rmb'000</i>	Total (unaudited) <i>Rmb'000</i>	Total (unaudited) <i>Rmb'000</i>
As at 1 January	—	—	11,722	80,704	92,426	18,514
Issue of shares	—	100,175	—	—	100,175	—
Profit for the six months ended 30 June	—	—	—	47,049	47,049	49,936
Dividend	—	—	—	(69,245)	(69,245)	(15,873)
Profit appropriation to statutory surplus reserve	—	—	616	(616)	—	—
Shareholders' loans deemed capitalized on a uniting of interests basis	—	—	—	—	—	89,845
As at 30 June	<u>—</u>	<u>100,175</u>	<u>12,338</u>	<u>57,892</u>	<u>170,405</u>	<u>142,422</u>

Note: Please refer to note 13 to the financial statements for the movements in share capital of the Company during the periods under review and subsequent to 30 June 2003.

COMBINED STATEMENT OF CASH FLOWS (UNAUDITED)

		For the six months ended 30 June	
		2003	2002
		<i>Rmb'000</i>	<i>Rmb'000</i>
		(Unaudited)	(Unaudited)
	<i>Notes</i>		
Net cash flows from operating activities	15	76,512	29,261
Cash flows from investing activities:			
Cash received from mature time deposits with original maturity of more than three months		828	28,177
Acquisition of property, plant and equipment and additions to construction in progress		(33,978)	(15,845)
Additions of deferred development costs		(688)	(970)
Interest income		139	77
Proceeds from disposal of property, plant and equipment		89	—
Net cash (used in)/from investing activities		(33,610)	11,439
Cash flows from financing activities:			
Addition of new bank loans and other borrowings		31,000	20,000
Repayment of bank loans and other borrowings		(25,000)	(40,800)
Interest paid		(627)	(479)
Dividends paid		(69,245)	(15,873)
Dividend paid to a minority shareholder		(356)	—
Net cash (used in) financing activities		(64,228)	(37,152)
Net (decrease)/increase in cash and cash equivalents		(21,326)	3,548
Cash and cash equivalents at beginning of period		41,474	10,398
Cash and cash equivalents at end of period		20,148	13,946

NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. Summary of corporate information and basis of presentation

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 reorganisation 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, on 21 June 2003.

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").

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

The result of the Group have been prepared on a uniting of interest basis as if the current Group structure had been in existence throughout the periods under review or since the respective dates of incorporation or establishment of the companies now comprising the Group, whichever is a shorter period.

The combined financial statements have been prepared in accordance with the 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.

2. Principal accounting policies

The principal accounting policies and methods of computation adopted for the preparation of the interim financial statements are same and consistent with those adopted by the Group in its prospectus dated 30 June 2003.

3. Profit before income tax

	For the six months ended 30 June	
	2003	2002
	Rmb'000	<i>Rmb'000</i>
	(Unaudited)	(Unaudited)
Included in the profit before income tax are the following revenue items:		
Sale of goods	233,961	153,219
Less: Business tax and government surcharges	(238)	(160)
Total turnover	<u>233,723</u>	<u>153,059</u>
Interest income from bank balances	139	59
Others	22	142
Total other revenue	<u>161</u>	<u>201</u>
Profit before income tax is arrived at after charging:		
Cost of the inventory sold	137,643	71,121
Amortization of deferred development costs	276	73
Amortization of land-use-rights	101	41
Depreciation	2,898	2,518
Loss on disposal of property, plant and equipment	130	32
Operating lease rental in respect of buildings	223	236
Finance costs:		
Interest on loans and borrowings wholly repayable within 5 years	631	457
Bank charges and others	81	19
Total finance costs	<u>712</u>	<u>476</u>
Staff costs:		
Wages and other staff costs	10,406	5,584
Retirement costs	472	477
Accommodation benefits	309	191
Total staff costs	<u>11,187</u>	<u>6,252</u>
Research and development costs	<u>4,460</u>	<u>3,652</u>

4. Related party transactions

The Group has the following related party transaction during the period under review:

	For the six months ended 30 June	
	2003	2002
	Rmb'000	Rmb'000
	(Unaudited)	(Unaudited)
Rental to Sing Lee Pharmaceutical Import & Export Co., Limited for lease of office premises	(i) <u>127</u>	<u>—</u>

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

5. Income tax expense

- (a) *Major component of income tax expense*

The income tax expense, all current, charged to the combined statement of income during the period ended 30 June 2003 was as follows:

	For the six months ended 30 June	
	2003	2002
	Rmb'000	Rmb'000
	(Unaudited)	(Unaudited)
Income tax expense	<u>6,329</u>	<u>—</u>

As the Group companies had no income assessable for profits tax in the Cayman Islands or in Hong Kong for the six months ended 30 June 2003 (the six months ended 30 June 2002: Nil), no provision had been made for profits tax for both jurisdictions.

According to the Income Tax Law of the PRC, the four subsidiaries of the Company, namely Suzhou Dawnrays Pharmaceuticals Co., Ltd, Suzhou Dawnrays Chemical Co., Ltd, Suzhou Dawnrays Pharmaceutical Technology Co., Ltd and Shanghai Dawnrays Chemical Co., Ltd, 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.

The first profitable year of operation of Suzhou Dawnrays Pharmaceuticals Co., Ltd and Shanghai Dawnrays Chemical Co., Ltd, after setting off losses carried forward, is the financial year beginning 1 January 2001 and 2002, respectively, based on the income for statutory financial reporting purposes.

As Suzhou Dawnrays Chemical Co., Ltd and Suzhou Dawnrays Pharmaceutical Technology Co., Ltd did not have assessable profit and therefore, no provision for income tax has been made during the reported period.

No deferred tax had been made for the reported periods as the net effect of all temporary timing differences is immaterial.

(b) *Reconciliation of income tax*

	For the six months ended 30 June	
	2003	2002
	Rmb'000	Rmb'000
	(Unaudited)	(Unaudited)
Accounting profit subject to income tax	53,632	—
Non-taxable profit	(2,497)	—
	<hr/>	<hr/>
Profit of the Group subject to income tax	51,135	—
Tax expense at an applicable tax rate of 12% (2002: nil)	6,136	—
Tax effect of expense items which are not deductible for income tax purpose	193	—
	<hr/>	<hr/>
Income tax expenses	6,329	—
	<hr/> <hr/>	<hr/> <hr/>

6. Dividends

	For the six months ended 30 June	
	2003	2002
	Rmb'000	Rmb'000
	(Unaudited)	(Unaudited)
2002 Final dividend declared, approved and paid during six months ended 30 June 2003	69,245	—
	<hr/> <hr/>	<hr/> <hr/>
Dividend of US\$1,918,700 relating to year 2001 declared and paid to the then shareholders of subsidiaries	—	15,873
	<hr/> <hr/>	<hr/> <hr/>

Subsequent to 30 June 2003, the Company declared an interim dividend for the year ending 31 December 2003, at HK\$0.015 per share, amounting to a total sum of approximately HK\$12,000,000 (equivalent to Rmb12,720,000) on 29 August 2003.

7. Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2003 is based on the unaudited combined profit attributable to shareholders of approximately Rmb47,049,000 (unaudited combined profit attributable to shareholders for six months ended 30 June 2002: approximately Rmb49,936,000), and on the assumption that 600,000,000 shares had been in issue throughout the periods under review, comprising 1,000 shares in issue as at 30 June 2003 and 599,999,000 shares to be issued pursuant to the Capitalisation Issue.

Diluted earnings per share have not been presented as the Company did not have any dilutive potential shares in issue during the periods under review.

8. Trade and notes receivables

	30 June 2003 Rmb'000 (Unaudited)	31 December 2002 Rmb'000 (Audited)
Outstanding balances with ages:		
Within 90 days	77,637	62,197
Between 91 to 180 days	8,707	5,666
Between 181 to 270 days	1,097	568
Between 271 to 360 days	389	238
Over one year	624	262
	<u>88,454</u>	<u>68,931</u>
Less: Provision for bad and doubtful debts	<u>510</u>	<u>510</u>
	<u><u>87,944</u></u>	<u><u>68,421</u></u>

The normal credit period granted by the Group is on average 60 days.

9. Inventories

	30 June 2003 Rmb'000 (Unaudited)	31 December 2002 Rmb'000 (Audited)
Raw materials	18,206	19,602
Work in progress	30,515	25,870
Finished goods	12,227	9,120
	<u>60,948</u>	<u>54,592</u>
Less: Provision for inventory obsolescence	<u>—</u>	<u>—</u>
	<u><u>60,948</u></u>	<u><u>54,592</u></u>

10. Interest-bearing loans and borrowings

	30 June 2003 Rmb'000 (Unaudited)	31 December 2002 Rmb'000 (Audited)
Bank loans, wholly repayable within one year	<u>6,000</u>	<u>—</u>

Interest capitalised during the six months ended 30 June 2003 was approximately Rmb36,000 (Six months ended 30 June 2002 : Nil).

Bank loans in the amount of Rmb6,000,000 borrowed by Suzhou Dawnrays Chemical Co., Ltd as at 30 June 2003 was guaranteed by Suzhou Dawnrays Pharmaceuticals Co. Ltd. and bore interest at 4.536% per annum.

11. Trade and notes payables

	30 June 2003 Rmb'000 (Unaudited)	31 December 2002 Rmb'000 (Audited)
Outstanding balances with ages:		
Within 90 days	93,209	39,557
Between 91 to 180 days	25,103	14,767
Between 181 to 270 days	1,603	707
Between 271 to 360 days	18	1,794
Over one year	45	919
	<u>119,978</u>	<u>57,744</u>

12. Due to related company

The amounts due to related company is unsecured, interest-free and is repayable on demand.

13. Share capital

	Number of shares	Nominal value HK\$	Nominal value Rmb
Authorised (ordinary shares of HK\$0.1 each):			
Upon incorporation	3,900,000	390,000	413,400
Subsequent increase	9,996,100,000	999,610,000	1,059,586,600
As at 30 June 2003	<u>10,000,000,000</u>	<u>1,000,000,000</u>	<u>1,060,000,000</u>
Issued and fully paid (ordinary shares of HK\$0.1 each):			
Issue of shares upon incorporation	1	0.1	0.1
Issue of shares arising from reorganization	999	99.9	105.9
As at 30 June 2003	<u>1,000</u>	<u>100.0</u>	<u>106.0</u>

Movements in the share capital of the Company were as follows:

- (a) 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.
- (b) Pursuant to the reorganization and as consideration for the acquisition by the Company of the entire issued capital of Dawnrays International Company Limited 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.

- (c) By written resolution of the sole shareholder of the Company passed on 21 June 2003, the authorised 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.
- (d) Pursuant to the written resolutions of the sole shareholder of the Company passed on 21 June 2003:
 - (i) the issue of 200,000,000 shares of HK\$0.1 each for cash by way of public offer and placing was approved (the "Share Offer") and the Directors were authorised to allot and issue these new shares.
 - (ii) conditional on the share premium account being credited as a result of the Share Offer, a total of 599,999,000 shares of HK\$0.1 each were allotted and issued as fully paid at par 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 of the Company.
- (e) On 9 July 2003, 200,000,000 new shares of the Company were allotted and issued for cash at HK\$0.8 each under the Share Offer.
- (f) On 9 July 2003, 599,999,000 shares were allotted and issued to Fortune United Group Limited pursuant to the capitalization issue.

As at 31 December 2002, combined shareholders' equity includes interest-free shareholders' loans amounting to Rmb100,175,000 of Dawnrays International Company Limited. On 21 June 2003, Dawnrays International Company Limited allotted and issued 98 shares of USD1.00 each to its then shareholders and thereby capitalized the shareholders' loans in an aggregate amount of Rmb100,175,000 due from Dawnrays International Company Limited to its shareholders. Accordingly, the shareholders' loans subsequently capitalized effectively represent combined shareholders' equity.

For the purpose of preparation of these financial statements, the balance of the issued capital shown in the consolidated balance sheet as at 30 June 2003 and in the combined balance sheet as at 31 December 2002, respectively, represents the share capital of the Company immediately before the issue of 200,000,000 New Issue Shares in relation to the initial public offering of the Company's on the Stock Exchange and before the issue of 599,999,000 as shares pursuant to the Capitalization Issue.

14. Reserves

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, and 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.

15. Note to the combined cash flow statement

Reconciliation of profit before income tax to net cash flows from operating activities

	For the six months ended 30 June	
	2003 Rmb'000 (Unaudited)	2002 Rmb'000 (Unaudited)
Profit before income tax	53,632	50,168
Adjustment for:		
Depreciation	2,898	2,518
Amortization of deferred development cost	276	73
Amortization of land-use-right	101	41
Loss on disposal of property, plant and equipments	130	32
Interest income	(139)	(59)
Interest expenses and other finance costs	631	457
	<hr/>	<hr/>
Operating profit before working capital changes	57,529	53,230
(Increase)/decrease in trade and notes receivables	(19,523)	1,092
(Increase)/decrease in prepayments, deposits and other receivables	(8,771)	(4,484)
(Increase)/decrease in inventories	(6,356)	(26,757)
Increase/(decrease) in trade and other payables	48,003	16,432
increase/(decrease) in accrued liabilities and other payables	3,677	(10,252)
Increase/(decrease) in amounts due to related companies	4,620	—
	<hr/>	<hr/>
Cash generated from operations	79,179	29,261
Income tax paid	(2,667)	—
	<hr/>	<hr/>
Net cash flows from operating activities	<u>76,512</u>	<u>29,261</u>

16. Commitments

The Group had the following commitments:

	30 June 2003 Rmb'000 (Unaudited)	31 December 2002 Rmb'000 (Audited)
Capital commitments		
Authorised, but not contracted for	82,677	164,920
Contracted, but not provided for	37,830	21,230
	<u>120,507</u>	<u>186,150</u>

Capital commitments represent the purchases of plant and machinery.

Future minimum lease rentals payable under non-cancelable operating leases for land and buildings are as follows:

	30 June 2003 Rmb'000 (Unaudited)	31 December 2002 Rmb'000 (Audited)
Within one year	706	324
In the second to fifth years, inclusive	1,486	1,294
Over five years	1,456	1,618
	<u>3,648</u>	<u>3,236</u>

17. 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 during the reported period.

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 of 30 June 2003 and 31 December 2002 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.

18. Post balance sheet events

Please refer to movements in share capital of the Company which have been described in note 13.

- (a) On 9 July 2003, 200,000,000 new shares of the Company were allotted and issued for cash at HK\$0.8 each under the Share Offer.
- (b) On 9 July 2003, 599,999,000 shares were allotted and issued to Fortune United Group Limited pursuant to the Capitalisation Issue, thereby capitalizing a sum of HK\$59,999,900 standing to the credit of the share premium account of the Company.
- (c) The shares of the Company were listed on the Main Board of the Stock Exchange on 11 July 2003.

By Order of the Board
Li Kei Ling
Chairman

Hong Kong, 29 August 2003