



DAWNRAYS PHARMACEUTICAL (HOLDINGS) LIMITED

東瑞製葯(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2348)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

FINANCIAL HIGHLIGHTS

	For the six months ended 30 June		
	2005	2004	
	RMB'000	RMB'000	Increase
	Unaudited	Unaudited	(%)
Turnover	311,002	252,905	22.97%
Gross Profit	101,700	92,632	9.79%
Profit before tax (continuing operations)	49,371	36,905	33.78%
Net profit attributable to shareholders	47,014	37,188	26.42%
Earnings per share — basic (RMB)	0.0588	0.0465	26.45%
Interim dividend per share (HK\$)	0.015	0.015	0%

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

The Board of Directors ("Board") of Dawnrays Pharmaceutical (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2005. These interim results have been reviewed by Ernst & Young, the auditors of the Company (the "Auditors"), in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants and by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2005

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
Notes		
Continuing operations		
Revenue	3	
Sale of goods	311,002	252,905
Cost of sales	(209,302)	(160,273)
Gross profit	101,700	92,632
Other income	3	654
Selling and distribution costs	(27,761)	(29,445)
Administrative expenses	(17,706)	(18,299)
Other expenses	(7,916)	(8,602)
Profit from continuing operations before tax and finance costs	49,441	36,940
Finance costs	(70)	(35)
Profit before tax	49,371	36,905
Income tax expense	4	331
Profit for the period from continuing operations	47,108	37,236
Discontinued operation	5	
Loss for the period from discontinued operation	(70)	(53)
Profit for the period	47,038	37,183
Attributable to:		
Equity holders of the parent	47,014	37,188
Minority interests	24	(5)
	47,038	37,183
Earnings per share	7	
basic for profit for the period	RMB0.0588	RMB0.0465
basic for profit from continuing operations	RMB0.0589	RMB0.0466
diluted for profit for the period	RMB0.0588	RMB0.0465
diluted for profit from continuing operations	RMB0.0589	RMB0.0466

CONDENSED CONSOLIDATED BALANCE SHEET AS AT 30 JUNE 2005 AND 31 DECEMBER 2004

	30 June 2005	31 December 2004
	(Unaudited)	(Audited and restated)
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Property, plant and equipment	223,057	182,890
Land use rights	13,664	13,817
Construction in progress	6,884	40,689
Deferred development costs	14,126	13,661
	257,731	251,057
Current assets		
Inventories	125,739	84,766
Trade and notes receivables	216,848	236,010
Prepayments, deposits and other receivables	32,523	16,144
Short term investments	62,819	96,566
Cash and cash equivalents	429,422	434,084
	1,801	1,942
	431,223	436,026
TOTAL ASSETS	688,954	687,083
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Issued capital	84,880	84,880
Share premium	69,583	69,583
Contributed surplus	100,175	100,175
Statutory surplus reserve	32,927	32,927
Exchange fluctuation reserve	879	819
Retained profits	152,706	123,087
	441,154	411,471
Minority interest	710	716
Total equity	441,864	412,187
Current liabilities		
Trade and notes payables	221,424	234,275
Tax payable	1,223	2,093
Other payables and accruals	24,440	38,453
	247,087	274,821
Liabilities directly associated with non-current assets classified as held for disposal	3	75
TOTAL LIABILITIES	247,090	274,896
TOTAL EQUITY AND LIABILITIES	688,954	687,083

NOTES TO THE INTERIM FINANCIAL INFORMATION

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of preparation and presentation

The condensed consolidated balance sheet as at 30 June 2005 and the related condensed consolidated income statement, cash flow and changes in shareholders' equity for the six months ended 30 June 2005 (the "period") (collectively defined as "Interim Financial Information") of the Company and its subsidiaries (collectively, the "Group") are prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" issued by the International Accounting Standards Board.

The Interim Financial Information should be read in conjunction with the Auditors' report and the audited consolidated financial statements of the Group for the year ended 31 December 2004 (the "2004 Financial Statements") as set out in the 2004 annual report of the Group dated 7 March 2005.

Except for those mentioned below, the accounting policies and method of computation used in the preparation of this Interim Financial Information are consistent with those used in the 2004 Financial Statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of financial assets at fair value through the income statement.

In 2005, the Group adopted the following revised, amended and newly released IFRS which are generally effective for accounting periods beginning on or after 1 January 2005 that are relevant to its operations. The 2004 Financial Statements have been restated as required, in accordance with the relevant requirements.

- IAS 1 Presentation of Financial Statements (amended 2004);
- IAS 2 Inventories (revised 2003);
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (revised 2003);
- IAS 10 Events after the Balance Sheet Date (amended 2004);
- IAS 16 Property, Plant and Equipment (amended 2004);
- IAS 17 Leases (amended 2004);
- IAS 21 The Effects of Changes in Foreign Exchange Rates (revised 2003);
- IAS 24 Related Party Disclosures (revised 2003);
- IAS 27 Consolidated and Separate Financial Statements (amended 2004);
- IAS 32 Financial Instruments: Disclosure and Presentation (amended 2004);
- IAS 33 Earnings per Share (amended 2004);
- IAS 38 Intangible Assets (amended 2004);
- IAS 39 Financial Instruments: Recognition and Measurement (amended 2004); and
- IFRS 2 Share-Based Payments (issued 2004).

Except for IFRS 2, the adoption of these standards did not result in substantial changes to the Group's accounting policies.

The adoption of IFRS 2 has resulted in a change in the accounting policy for share-based payments. Prior to the adoption of IFRS 2, provision of share options did not result in a charge in the income statement. With the adoption of IFRS 2, the costs of share options are required to be charged to the income statement.

The adoption of IFRS 2 required retrospective application of all the share options granted after 11 July 2003 and not vested as at 1 January 2005, which has resulted in the following:

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Decrease in retained profits	4,255	535
Increase in selling and distribution costs	497	533
Increase in administrative expenses	1,648	1,395
Decrease in basic earnings per share	RMB0.003	RMB0.002
Decrease in diluted earnings per share	RMB0.003	RMB0.002

1.2 Accounting policies of share-based payment transactions

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible persons (including the Company's directors, employees of the Group and other eligible participants as defined under the Scheme) who contribute to the success of the Group's operations.

Equity-settled transactions

The cost of equity-settled transactions with eligible person is measured by reference to the fair value at the date at which they are granted. The fair value is determined using Black-Scholes-Merton valuation model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions").

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant eligible persons become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Group at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earning per share (see note 7).

2. SEGMENT INFORMATION

The Group's turnover and profit were mainly derived from the sale of medicines by the People's Republic of China (the "PRC") subsidiaries to customers in the PRC. The principal assets employed by the Group are located in the PRC. Accordingly, no segment analysis by business and geographical segments is provided.

3. REVENUES AND EXPENSES

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
Included in the profit before income tax are the following revenue items:		
Sale of goods	311,089	253,023
Less: Business tax and government surcharges	(87)	(118)
Total turnover	311,002	252,905
Interest income from bank balances	487	529
Dividend income from listed investments	—	62
Government grants	200	—
Others	437	63
Total other income	1,124	654
Profit before income tax is arrived at after charging:		
Cost of the inventories sold	209,302	160,273
Amortization of deferred development costs	429	374
Amortization of land use rights	153	151
Depreciation	8,170	5,659
Loss on disposal of property, plant and equipment	413	1,160
Minimum lease payments under operating lease rental in respect of buildings	486	448
Exchange losses, net	50	22
Realised and unrealised loss on investments in trading securities	105	84
Finance costs:		
Bank charges and others	70	35
Total finance costs	70	35
Staff costs:		
Salaries and other staff costs	18,557	20,111
Retirement costs	727	1,507
Accommodation benefits	518	723
Expense of share-based payments	2,145	1,928
Total staff costs	21,947	24,269
Research and development costs	7,225	7,327

4. INCOME TAX

(a) Income tax expense

The income tax expense, all current, charged to the consolidated income statement for the six months ended 30 June 2005 was as follows:

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Income tax expense	2,263	1,540
Tax refund	—	(1,871)
	2,263	(331)

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

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 was in its fifth profitable year in 2005 and therefore its applicable income tax rate was 12%. However, Suzhou Dawnrays Pharmaceuticals obtained tax approval from the relevant tax authorities as a qualified foreign-owned manufacturing enterprise engaging in technology-intensive and knowledge-intensive projects ("Double-intensive Enterprise") in 2004. According to PRC tax laws and regulations, Suzhou Dawnrays Pharmaceuticals is subject to the corporate income tax of the PRC at a rate of 7.5% from 1 January 2003 to 31 December 2005, and at 15% from 1 January 2006 onwards. Its status as a Double-intensive Enterprise is subject to periodic reassessment by the relevant PRC government authorities.

The paid up capital of Suzhou Dawnrays Pharmaceuticals was increased by US\$15,000,000 from US\$10,000,000 to US\$25,000,000 in 2004. According to PRC tax laws and regulations, taxable profits generated in the first two years and the three years thereafter from the aforesaid additional capital is exempted from corporate income tax and taxed at 50% reduced rate, respectively. The relevant PRC tax laws and regulations also granted qualified enterprises an option to commence such tax concession on taxable profit in the following year after the additional capital has been contributed. The tax concession has been applied on the profit generated from the additional capital injected in the period.

Shanghai Dawnrays Chemical is in its fourth profitable year based on the income for statutory financial reporting purposes. It is subject to the corporate income tax of the PRC at a rate of 12% and local corporate income tax at a rate of 1.5% from 1 January 2004 to 31 December 2006.

Suzhou Dawnrays Chemical is in its first profitable year and therefore, no provision for income tax has been made during the period. As of 30 June 2005, Suzhou Dawnrays Technology was under liquidation and has no taxable income thereof.

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

For the six months ended 30 June 2005 (Unaudited)

	RMB'000	%
Profit before tax (continuing and discontinued operations)	49,301	
Tax at the statutory tax rate	16,269	33.0
Lower tax rate for specific provinces or local authorities	(15,025)	(30.5)
Expenses not deductible for tax	1,019	2.1
Tax charge at the Group's effective rate	2,263	4.6

For the six months ended 30 June 2004 (Unaudited and restated)

	RMB'000	%
Profit before tax (continuing and discontinued operations)	36,852	
Tax at the statutory tax rate	12,161	33.0
Lower tax rate for specific provinces or local authorities	(11,880)	(32.2)
Expenses not deductible for tax	1,259	3.4
Tax charge at the Group's effective rate	1,540	4.1

(b) Tax refund

As Suzhou Dawnrays Pharmaceuticals is an approved Double-intensive Enterprise as mentioned above, Suzhou Dawnrays Pharmaceuticals received a refund of the excess of the corporate income tax paid in 2003 in relation to the aforesaid reduced corporate income tax rate amounting to RMB4,818,000 in 2004.

Pursuant to board resolutions of Suzhou Dawnrays Pharmaceuticals dated 15 December 2003 and 8 March 2004, Suzhou Dawnrays Pharmaceuticals declared a dividend of RMB82,205,630 to Dawnrays International Company Limited ("Dawnrays International") pertaining to the year ended 31 December 2003. Pursuant to a board resolution of Dawnrays International dated 18 December 2003 and 9 March 2004, Dawnrays International reinvested the aforesaid dividend of RMB82,205,630 into Suzhou Dawnrays Pharmaceuticals. According to PRC tax laws and regulations, Dawnrays International accrued a tax refund in relation to the aforesaid reinvestment amounting to RMB9,708,000 in 2003, based on the then effective corporate income tax of 12%. As Suzhou Dawnrays Pharmaceuticals is now an approved Double-intensive Enterprise, Dawnrays International reduced the tax refund accrued in relation to the aforesaid reinvestment to RMB6,612,000 by RMB3,096,000 which has been charged to tax expense in 2004.

During the period, the tax authority has approved a tax refund of RMB6,436,000. Accordingly, Dawnrays International reversed an over accrual of tax refund amounting to RMB176,000 during the period. Suzhou Dawnrays Pharmaceuticals received 40% of the refund from the tax authority amounting to RMB2,574,000 in June 2005. In July 2005, the remaining 60% thereof amounting to RMB3,862,000 has also been received by Suzhou Dawnrays Pharmaceuticals.

5. DISCONTINUED OPERATION

On 22 April 2005, the board of directors of Suzhou Dawnrays Technology passed a resolution to voluntarily wind up the company, which has remained relatively dormant since its incorporation. As of 30 June 2005, Suzhou Dawnrays Technology has not completed the relevant procedures and has been classified as a discontinued operation.

The results of Suzhou Dawnrays Technology for the period are presented below:

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Other income	30	—
Expenses	(100)	(53)
Net loss attributable to discontinued operation	(70)	(53)

The major classes of assets and liabilities of Suzhou Dawnrays Technology at the lower of carrying amount and fair value less costs to dispose as at 30 June 2005 are as follows:

	30 June	31 December
	2005	2004
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Assets		
Property, plant and equipment	—	126
Cash	1,801	1,816
Non-current assets classified as held for disposal	1,801	1,942
Liabilities		
Creditors	(3)	(75)
Liabilities directly associated with non-current assets classified as held for disposal	(3)	(75)
Net assets attributable to discontinued operation	1,798	1,867

The net cash flows incurred by Suzhou Dawnrays Technology are as follows:

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Operating	(148)	(329)
Net cash outflow	(148)	(329)
Earnings per share:		
Basic from discontinued operation	RMB0.0001	RMB0.0001
Diluted from discontinued operation	RMB0.0001	RMB0.0001

6. DIVIDENDS

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Dividend pertaining to the prior year declared in the six months ended 30 June	19,543	29,840
Interim — HK\$0.015 (2004: HK\$0.015) per ordinary share	12,779	12,760
	32,322	42,600

On 10 August 2005, the Company declared an interim dividend for the year ending 31 December 2005, at HK\$0.015 per share, amounting to a total sum of HK\$12,000,000 (equivalent to RMB12,779,000).

7. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share amounts are calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period (adjusted for the effects of dilutive options).

The following reflects the income and share data used in the total operations basic earnings per share computations:

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
Net profit attributable to equity holders from continuing operations	47,084	37,241
Loss attributable to equity holders from discontinued operation	(70)	(53)
Net profit attributable to equity holders of the parent	47,014	37,188

There have been no transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

To calculate discontinued earnings per share, the following table provides the profit figure used as the numerator:

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net loss attributable to ordinary shareholders from discontinued operation for basic earnings per share	(70)	(53)
Net loss attributable to ordinary shareholders from discontinued operation for diluted earnings per share	(70)	(53)

The calculation of basic earnings per share for continuing operations and discontinued operation for the period is based on the above net profit attributable to equity holders from continuing operations and loss attributable to equity holders from discontinued operation, respectively, and the weighted average of 800,000,000 (30 June 2004: 800,000,000) ordinary shares in issue during the period.

As the exercise price of outstanding share options is higher than the average fair value of the ordinary share during the period, the conversion to ordinary shares would increase earnings per share. As such, the share options outstanding during the period had an anti-dilutive effect on the basic earnings per share calculation.

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 2005, amounting to a total sum of approximately HK\$12,000,000 (equivalent to approximately RMB12,779,000).

CHAIRMAN'S STATEMENT

With the impact arising from the mandatory order of reducing the retail price of antibiotics by the National Development and Reform Commission of PRC in June 2004, the directive on the business operation model of the Group was gradually switched to direction of "intensive-focus" economic-oriented structure in the first

half of 2005. The out-performance of the "intensive-focus" economic-oriented structure had attributed favorable impact on our existing types of antibiotics and system specific medicine with enhanced productivity, new technological craftsmanship in research and development, and production cost-control. The Group has started to have more flexible and profitable business models with the integration and effective correlation of/between manufacturing, purchasing, sales and chemical engineering resulting from the elaborated "intensive-focus" economic-oriented structure. So far as the current product types business is concerned, the growth of the Group's turnover now gained despite the market being under the pressure of price-cut is a concrete evidence of the Group possessing ingenuity in extricating itself from unfavorable and restrictive conditions.

The Group is in process of an analysis of the current market with a degree of concern with market conditions in order to derive aggressively a new profitable model so that a position with certainty about new direction of investment and business developments can be ascertained. This includes negotiation on the deals with foreign pharmaceutical companies on agency, reinforcement of overseas market development, and conceptual study of running Chinese medicine products.

The national medical system in China has been reforming. The comments on the medical system's reformation from the government, pharmaceutical manufacturers, hospitals, doctors, patients, insurance companies were not consistent. Undoubtedly, national power in China has been increasingly upgraded and reinforced, the medical expenditures of the Chinese citizens including those from the big cities and rural areas are increasing. According to the information of "China's Health Statistics Highlight in 2005 (2005年中國衛生統計提要)" released by the Ministry of Health of PRC, it stated that "the total amount of medical expenditure in PRC rose from RMB14.3 billion in 1980 to RMB662.3 billion in 2003" (refer to 25th Issue of "Outlook Weekly" edited by Xinhua News Agency (中國新華通訊社編輯的《瞭望新聞周刊》), published on 20th June 2005). According to an article of "Looking to China and cancer as cost containment slows growth" dated on 30 March 2005 in IMS Health (a reputable global source for pharmaceutical market analysis and news), it specifies that "the most notable element of the pharmaceutical market in 2004 was the impressive growth recorded in China, which saw sales increase 28% year-over-year". In the long run, the China's medical market will definitely become a huge and great potential market comparing with other medical markets in the world. The goal to aim for is a development strategy that is for the real situation of Dawnrays, devoting itself to having highly-disciplined and effective corporate governance, practical and solid century establishment to assure itself of continuing growing healthy development.

BUSINESS REVIEW

1. BUSINESS OPERATION

In the first half year of 2005, with the effectual structures and development of scientific study, and the development of powder for injection and the sales of the generic drugs (system specific medicine), targeted goal has been achieved and this is an encouraging result pleased to have. The major attributions are as follows:

- Reinforced management aimed at control over all expenditures. There appeared the operating expenses as a percentage of turnover costing only 17.16% in the first six months of the year compared with 22.27% of the corresponding period of previous year.
- With the breakeven demand and supply, decent structure, development of scientific study and the favorable conditions offered for the best production capability, cephalosporin bulk medicine has been in production to the best ever level.
- There exists preliminary effective return resulting from effort to restructure a marketing strategy for marketable products — gain in sales of all such high profitable products such as Cefoperazone bulk medicine and "AnNeiZhen" are ongoing.
- With the price cut by State administrative order, the rural sector as one of the market of Ceftriaxone Sodium for injection has been underway since then to the extend that the sales has dramatically increased because of its being broadly used there.
- Large scale program of solvent recycling has actively led to the production costs lower.
- The expansion of production capacity of both the bulk medicine and powder for injection has had the condition for strengthening the sales in place.

2. PRODUCTS IN THE PIPELINE

In the first half of 2005, our mission of research-and-development projects were focused, intensive, and had been in progress based on our plan of resource-control basis. There were 2 production permits obtained in the first half of 2005, namely Compound Amiloride Hydrochloride Tablets and "Jiedu Hupan Keli" (解毒護肝顆粒). The Group submitted a total of 46 application files of research-and-development permits.

The newly and self-developed cephalosporin compound formula preparations had been passed the Centre for Drug Evaluation (CDE) requirement of State Food & Drug Administration (SFDA), the clinical testing permit was obtained. The compound formula preparations for cardiovascular system had also commenced the development stage including the stability research of group of formulas and the experimental project design.

PROSPECTS

The Group, concentrating the research and development with focus, had proceeded with its focus on our researches and developments in anti-infective, cardiovascular and diabetic products. This has in turn encouraged the cooperation between organizations with a wide range of scientific researches, and the research and development of anti-infective products has been underway. At the same time, we proceeded with the development of specialty bulk medicine aiming for international market and getting prepared for the product restructuring adjustment in the next step.

The Group has formulated a series of marketing strategies, including the launch of the fourth generation cephalosporin products in the second half of 2005, reinforcement of marketing and sales force in rural areas and small towns, reinforcement of the sales channels of system specific medicine in community's hospitals, and etc.

In the second half of 2005, the Group will strengthen the force of sales and distribution channel, attract talents, maintain and reinforce the competitive edge of the Company to continue to create our shareholders' value.

FINANCIAL REVIEW

SALES AND GROSS PROFIT

During the six months ended 30 June 2005 (the "Reported Period"), the Group has achieved the total turnover of RMB 311,002,000, equivalent to an increase of 22.97% compared with the corresponding period of last year. The main reason of the increase of total turnover was the 140% growth of the sales quantity of powder for injection by a total of 44.28 millions of vials compared with the corresponding period of last year.

Gross profit was approximately RMB101,700,000, equivalent to an increase of 9.8% compared with the corresponding period of last year. Gross profit margin was 32.7%, representing a slight decline as compared with 36.6% of the corresponding period of last year. The main reasons of the gross profit margin declined are as follows: firstly, an increase of the up-stream raw material cost made an effect of rising the Group's cost of production; secondly, the selling prices of powder for injection and system specific medicine (generic drugs) voluntarily declined further to gain the market share. Also, the percentage of the decline of sales unit price was bigger than the percentage of the decline of cost. The sales unit price of powder for injection declined 32% compared with the corresponding period of last year while the cost only dropped 12%. The sales unit price of system specific medicine (generic drugs) declined 22% compared with the corresponding period of last year while the cost only dropped 12%.

During the Reported Period, the export sales was RMB16,284,700, equivalent to an increase of 58.75% compared with the corresponding period of last year.

TURNOVER ANALYSIS

Products	Turnover	Sales Breakdown	Gross Profit Margin
	RMB'000	(%)	(%)
For the six months ended 30 June 2005			
Bulk Medicine	135,046	43.42	25.50
Powder for injection	146,418	47.08	30.83
Generic Drugs (System Specific Medicine)	29,538	9.50	74.92
Total	311,002	100.00	32.7
For the six months ended 30 June 2004			
Bulk Medicine	137,015	54.2	21.6
Powder for injection	88,790	35.1	47.1
Generic Drugs (System Specific Medicine)	27,100	10.7	78.3
Total	252,905	100.0	36.6

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

During the Reported Period, the Company's profit attributable to shareholders was approximately RMB47,014,000, representing an increase of 26.42% compared with the corresponding period of last year. The reason of a rise in profit attributable to shareholders was mainly the increase in turnover and the decline in operating expenses.

During the Reported Period, the operating expenses incurred was approximately RMB53,383,000, equivalent to a decline of 5.25% compared with the corresponding period of last year. The total operating expenses as a percentage of turnover was 17.16% (2004: 22.27%).

Of which, selling and distribution expenses was approximately RMB27,761,000, equivalent to a decline of 5.71% compared with the corresponding period of last year. The selling and distribution expenses as a percentage of turnover was 8.92% (2004: 11.64%).

Administration expenses and other operating expenses was approximately RMB25,622,000, equivalent to a decline of 4.7% compared with the corresponding period of last year. The decline of the total expenses was mainly due to the bonus payment in the first half of 2004, but no such bonus was paid in the first half of 2005.

ANALYSIS ON RETURN OF ASSETS

As at 30 June 2005, net assets of the Group were approximately RMB441,864,000. Net return on assets, which is defined as the net profit from operating activities attributable to shareholders divided by net assets, was 10.6% (2004: 9.7%).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2005, the Group held cash and cash equivalents of RMB62,819,000 (As at 31 December 2004: RMB96,566,000). Other than the trade payables and notes payables amounting to RMB221,424,000 (As at 31 December 2004: RMB234,275,000), the Group had no bank loans (As at 31 December 2004: Nil).

The debt ratio (defined as interest bearing loans and borrowings over total assets) of the Group as at 30 June 2005 was 0% (As at 31 December 2004: 0%).

The Group has always maintained sufficient liquidity, but for contingency purpose, the Group has arranged bank facilities. As at 30 June 2005, the Group has aggregate bank facilities of approximately RMB430,000,000 (As at 31 December 2004: RMB387,000,000). The bank facilities provided to Suzhou Dawnrays Pharmaceuticals Co., Ltd. was purely credit loan. The bank facilities provided to Suzhou Dawnrays Chemical Co., Ltd. was the credit loan with 15%-20% guarantee of assets.

During the Reported Period, net cash inflows from operating activities were approximately RMB21,881,000. The reasons of a decline of net cash inflows from operating activities were mainly the new bulk medicine workshop in operation, and a rise in merchandising costs arising from the inspection period that requires extension from 7 days to 14 days, for which bulk medicines for storage in warehouse was prolonged accordingly. Capital expenditure on construction and investment of fixed assets was approximately RMB35,985,000.

As at 30 June 2005, the Group's capital commitment was approximately RMB58,769,000 (as at 31 December 2004: RMB91,989,000), which mainly derived from the new bulk medicine workshop, new warehouse, renovation and upgrade of the old workshop for powder for injection, and the public construction work of the factory area. The Group has sufficient financial and internal resources to bear the capital expenditure.

FOREIGN EXCHANGE AND TREASURY POLICIES

Substantially all of the business activities, assets, liabilities of the Group are calculated in Renminbi, therefore the risk derived from the foreign exchange to the Group is not high. The treasury policy of the Group will only manage all such risk of foreign exchange (if any) that will potentially give great impact on the Group. The Group continues to observe the foreign exchange market, and may hedge against fluctuations with foreign exchange forward contracts if necessary.

STAFF AND REMUNERATION POLICY

As at 30 June 2005, the Group employed approximately 1,300 employees and the total remuneration was approximately RMB21,947,000 (2004: RMB24,269,000). The Group highly values human resources and truly understands the importance of attracting and keeping high-performance employees. Remuneration policy is generally based on the references of market salary index and individual qualifications. The Group provides its employees with other fringe benefits including defined contribution retirement schemes, share option scheme and medical coverage. The Group also provides certain of its employees in PRC with dormitory accommodation in PRC.

CHARGE ON ASSETS

As at 30 June 2005, net book value of RMB4,154,000 monetary capital was pledged to banks to obtain credit facilities (As at 31 December 2004: Nil).

CONTINGENT LIABILITIES

As at 30 June 2005, the Group had no material contingent liabilities (As at 31 December 2004: Nil).

PLANS FOR SIGNIFICANT INVESTMENTS AND EXPECTED SOURCE OF FUNDING

Details of the Group's future plans for significant investments and their expected sources of funding have been stated in the Company's Annual Report 2004 on page 13. Other than those disclosed above, the Group did not have any plan for material investments or acquisition of capital assets.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2005.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules ("Model Code") as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the interim report.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

The unaudited interim condensed consolidated financial statements of the Company for the period ended 30 June 2005 have been reviewed by the audit committee before recommending it to the Board for approval.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six-months ended 30 June 2005.

CHANGE OF DIRECTOR

Mr. Lam Kam Wah resigned as an executive director of the Company with effect from 22 April 2005. The Board would like to thank Mr. Lam for his contributions to the Company during the tenure of his service.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday,20 September 2005 to Friday, 23 September 2005 (both days inclusive), during which period no transfer of shares will be registered.

Dividend warrants will be despatched to shareholders on or about Wednesday, 28 September 2005. 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 Friday, 16 September 2005.

By Order of the Board
Li Kei Ling
Chairman

Hong Kong, 10 August 2005

As at the date of this announcement, the Board comprises eight directors, of which five are executive directors, namely Ms. Li Kei Ling, Mr. Hung Yung Lai, Mr. Zhang Jing Xing, Mr. Li Tung Ming and Mr. Xu Kehan; three are independent non-executive directors, namely Mr. Pan Xue Tian, Mr. Lee Cheuk Yin Dennis and Mr. Choi Tat Ying Jacky.